

Consolidated Financial Results

for the First 2 Quarters of Fiscal 2016 [Japanese GAAP]

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

Listing: **Tokyo Stock Exchange**

Stock code number: **5981**

URL: **http://www.tokyorope.co.jp**

Representative: **Hiroaki Nakamura, President**

Contact: **Kazunori Sato, Executive Officer & General Manager, General Affairs Dept.**

Phone: **+81-3-6366-7777**

Preparation of Supplementary Explanations of Quarterly Financial Results: **November 14, 2016**

Start of cash dividend payments: **—**

Supplementary quarterly materials prepared: **Yes**

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

1. Fiscal 2016 -First 2 Quarters (April 1–September 30, 2016)

(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 2016–First 2 quarters	¥32,141	3.6%	¥1,684	11.7%	¥1,235	18.6%	¥810	31.7%
Fiscal 2015–First 2 quarters	31,036	-9.0	1,507	33.1	1,041	-33.7	615	-66.9

Note: Comprehensive income

Fiscal 2016–1st 2 quarters: ¥-307 million (–%)

Fiscal 2015–1st 2 quarters: ¥126 million (-95.3%)

	Earnings per share	Earnings per share (fully diluted)
	(Yen)	(Yen)
Fiscal 2016–First 2 quarters	¥49.84	¥ –
Fiscal 2015–First 2 quarters	37.91	–

*The Company implemented a consolidation of its common stock at a ratio of 10 shares to 1 share, effective as of October 1, 2016. In line with the share consolidation, earnings per share are calculated assuming that the consolidation of common stock was implemented at the beginning of the previous fiscal year.

(2) Financial Position

(Millions of yen, rounded down)

	Total assets	Net assets	Equity ratio
Fiscal 2016–First 2 quarters	¥84,399	¥22,985	24.8%
Fiscal 2015–Year-end	88,508	23,945	24.7

Note: Equity capital at term-end

Fiscal 2016–First 2 quarters: ¥20,895 million

Fiscal 2015: ¥21,865 million

2. Cash Dividends

	Cash dividend per share (yen)				
	1st quarter	2nd quarter	3rd quarter	Year-end	Full year
Fiscal 2015	—	¥0.00	—	¥4.00	¥4.00
Fiscal 2016	—	0.00	—	—	—
Fiscal 2016 (est.)	—	—	—	40.00	40.00

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

*The Company implemented a consolidation of its common stock at a ratio of 10 shares to 1 share, effective October 1, 2016. Accordingly, the effect of the share consolidation has been taken into account for the forecast figure of the year-end cash dividend per share (forecast) for the fiscal year ending March 2017. When the share consolidation is not taken into account, the year-end cash dividend per share (forecast) for the fiscal year ending March 31, 2017 will be ¥4.00 and the full-year cash dividend per share will be ¥4.00. For details, please refer to the “Appropriate use of business forecasts; other special items” in this report.

3. Forecast for Fiscal 2016 (April 1, 2016–March 31, 2017)

(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)
Full year	66,000	1.1%	4,400	2.2%	3,800	25.7%	2,700	1.0%	166.30

Note: Revision of latest consolidated forecasts in review: No

*For earnings per share in the full-year business forecast for the fiscal year ending March 2017, the effect of the share consolidation has been taken into account. For more details, please refer to the “Appropriate use of business forecasts; other special items” in this report.

Notes

(1) Changes in important subsidiaries during the period (changes in specific subsidiaries due to change in scope of consolidation):
None

(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: Yes
2. Other changes in accounting policies: None
3. Changes in accounting estimates: None
4. Restatements: None

Note: This refers to the existence of changes in accounting policies, changes in accounting estimates, restatements, pertaining to the preparation of quarterly consolidated financial statements.

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

1. Number of shares outstanding (including treasury stock)

Fiscal 2016–1st 2 quarters: 16,268,242

Fiscal 2015: 16,268,242

2. Number of treasury shares outstanding

Fiscal 2016–1st 2 quarters: 6,530

Fiscal 2015: 5,882

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

Fiscal 2016–1st 2 quarters: 16,262,199

Fiscal 2015–1st 2 quarters: 15,428,321

Note: The Company implemented a consolidation of its common stock at a ratio of 10 shares to 1 share, effective as of October 1, 2016. In line with the share consolidation, the number of shares outstanding, number of treasury shares outstanding and average number of shares over period is calculated assuming that the consolidation of common stock was implemented at the beginning of the previous fiscal year.

Implementation status of quarterly review procedures

At the time of disclosure of this report, review procedures for quarterly financial statements pursuant to the Financial Instruments and Exchange Act had been completed.

Appropriate use of business forecasts; other special items

1. 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.

2. The share consolidation was voted for and approved at the 217th Annual Meeting of Shareholders held on June 28, 2016. Accordingly, the Company will implement a consolidation of its common stock at a ratio of 10 shares to 1 share, effective as of October 1, 2016. If the share consolidation is not taken into account, the forecast cash dividend and the performance forecast for the fiscal year ending March 31, 2017 are translated as follows:。

(1) Forecast cash dividend per share for the fiscal year ending March 31, 2017: ¥4.00 (year-end)

(2) Earnings per share in the performance forecast for the fiscal year ending March 31, 2017: ¥16.60 (full-year)

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1. Performance and Financial Position

(1) Consolidated Business Results

During the first two quarters of the fiscal year ending March 31, 2017, the Japanese economy saw uncertainty expand for its future prospects due to such factors as the slowdown of China and other emerging economies and the impacts of Brexit despite improvement of employment situation.

Under these circumstances, net sales of the Tokyo Rope Group increased 3.6% year-on-year to ¥32,141 million for the first two quarters due to sales of wire saw (equipment for solar cell production) although net sales of overseas subsidiaries shrank in the yen conversion amount due to progressing appreciation of the yen.

In terms of profits, sales of wire saw and improved costs in the Wire Rope segment and other factors allowed the Group to post operating income of ¥1,684 million (up 11.7% year-on-year), ordinary income of ¥1,235 million (up 18.6% year-on-year) and profit attributable to owners of parent company of ¥810 million (up 31.7% year-on-year).

Results by business segment of the Group were as follows:

Wire Rope

Although sales volume of wire rope, centering on elevator rope, for overseas markets and fiber rope for the domestic market increased, sales volume of wire rope for the domestic market decreased. As a result, total sales in the Wire Rope segment amounted to ¥14,212 million (down 0.4% year-on-year), and operating income totaled ¥1,084 million (up 21.7% year-on-year) due to such factors as improved costs through cost reductions.

Steel Cord

Total sales in the Steel Cord segment amounted to ¥8,583 million (up 27.9% year-on-year) and operating income totaled ¥840 million (up 204.9% year-on-year) due to sales of wire saw despite the decrease in sales volume of tire cord.

Product Development

As overseas sales decreased, total sales of the Product Development segment amounted to ¥5,344 million (down 12.4% year-on-year), and operating loss totaled ¥607 million (operating gain of ¥127 million for the year-earlier period) due to such factors as a decrease in sales and an increase in selling, general and administrative expenses including R&D expenses.

Real Estate

With an increase in the electricity sales revenue from solar power plant operations which started in June 2015, total sales of the Real Estate segment amounted to ¥661 million (up 4.6% year-on-year). The segment posted operating income totaling ¥174 million (up 389.3% year-on-year) due to lowered costs through reducing fixed costs and such.

Other

Despite decrease in oil products in accordance with a drop in crude oil prices, industrial machinery sales increased, bringing total sales of the Other segment to ¥3,339 million (up 0.5% year-on-year) and operating income to ¥193 million (up 8.6% year-on-year).

(2) Financial Position

Assets, Liabilities and Net Assets

Total assets at the end of the first two quarters of the fiscal year ending March 31, 2017 for the Tokyo Rope Group was ¥84,399 million yen, a decrease of ¥4,108 million yen from the end of the previous fiscal year, mainly due to a decrease in inventories and current assets such as cash and bank deposits.

Total liabilities decreased ¥3,149 million from the end of the previous fiscal year to ¥61,413 million, as a result of a decrease in current liabilities and other advances received and borrowings.

Net assets totaled ¥22,985 million, a decrease of ¥959 million compared with the end of the previous fiscal year. The decrease was due to a decrease in foreign currency translation adjustment and valuation difference on available-for-sale securities despite an increase in retained earnings.

Cash Flow

As of September 30, 2016, cash and cash equivalents totaled ¥3,659 million, down ¥910 million from March 31, 2016.

Net cash provided by operating activities amounted to ¥503 million. The main factors were recording of income before income taxes and decrease in inventories which offset decrease in advances received.

Net cash used in investing activities totaled ¥ 1,159 million, mainly due to purchases of property, plants, and equipment.

Net cash used in financing activities was ¥ 923 million, mainly reflecting payment of cash dividends and decrease in borrowings.

(3) Performance Forecasts

The Tokyo Rope Group has made no revision to its full-year projected results forecast released in the “Consolidated Financial Results for the Fiscal 2015” dated May 12, 2016.

2. Summary (Other) Information

(1) Changes in Important Subsidiaries during the Period

Not applicable

(2) Application of Special Accounting Treatment

We have adopted the method in which income taxes are calculated by multiplying quarterly income before income taxes by reasonably estimated effective tax rate subsequent to the application of tax effect accounting to the income before income taxes and minority interests for the consolidated fiscal year, including the first 2 quarters.

(3) Changes in Accounting Policies; Changes in Accounting Estimates; Restatements

Changes in accounting policies

Pursuant to amendments to the Corporation Tax Act, the Company applied the Practical Solution on a Change in Depreciation Method due to Tax Reform 2016 (Practical Issue Task Force (PITF) No. 32 dated June 17, 2016), effective from the first quarter of the consolidated fiscal year ending March 2017. Accordingly, the Company changed the depreciation method for facilities attached to buildings and structures acquired on and after April 1, 2016 from the declining-balance method to the straight-line method.

The change gave only minimum impacts on the operating income, ordinary income and income before income taxes for the first 2 quarters.

(4) Additional Information

Application of the Implementation Guidance on Recoverability of Deferred Tax Assets

The Company applied the Implementation Guidance on Recoverability of Deferred Tax Assets (Accounting Standard Board of Japan Guidance No. 26 dated March 28, 2016), effective from the first quarter of the consolidated fiscal year ending March 2017.

Performance-linked and share-based remuneration plan for directors

1) Overview of the performance-linked and share-based remuneration plan for directors

Currently, remunerations for the Company's directors (excluding outside directors; the same applies hereinafter) comprise fixed remuneration and remuneration linked to short-term performance of the Company. Recognizing that it should be beneficial for the continuous growth of the Tokyo Rope Group to establish incentives for enhancing the corporate value over a medium to long term, the Company made a resolution resolved at the 217th Annual Meeting of Shareholders held on June 28, 2016 on the introduction of a performance-linked and share-based remuneration plan (hereinafter, the "Plan") for its directors as a new remuneration system linked to medium- to long-term performance.

Furthermore, the details of the Plan were decided at the board of directors' meeting held on November 14, 2016. In conjunction with such, it was also resolved that executive directors of the Company (excluding those concurrently serving as directors; the same applies hereinafter) be included in the scope of the Plan and that the Plan is implemented for remuneration for executive directors of the Company.

In introducing the Plan, the Company will establish a monetary trust with its directors as beneficiaries (hereinafter, the "Trust"). Under the performance-linked remuneration system, the Trust will acquire the Company's shares, grant points to the directors in accordance with their positions and the level of achieving the targets of performance indicators in the mid-term management plan. When the directors leave office, the Company's shares will be delivered to them in accordance with the aggregate points they earned during their tenure. The period covered by the Plan will be the three years from the fiscal year ending March 31, 2017 to the fiscal year ending March 31, 2019.

- Name: Board Benefit Trust
- Trustor: Tokyo Rope Manufacturing Co., Ltd.
- Trustee: Sumitomo Mitsui Trust Bank, Limited
(Re-trustee: Japan Trustee Services Bank, Ltd.)
- Beneficiary: Directors satisfying the requirements for a beneficiary set forth in the share delivery regulations
- Trust caretaker: Appoint a third party who is not an interested party of the Company (planned)
- Type of trust: Trust of money other than monetary trust (third party beneficiary trust)
- Trust contract date: November 24, 2016 (planned)
- Money trusting date: November 24, 2016 (planned)
- Termination of trust: the end of July, 2019 (planned)

2) Details of acquisition of the Company's shares in trust

- Type of shares to be acquired: Common stock
- Amount to be entrusted as funds to acquire shares: ¥300 million or less (planned)
Of which, ¥200 million is for directors
and ¥100 million for executive directors
- Total number of shares to be acquired: 150,000 shares (planned)
Of which, 100,000 are shares for directors
and 50,000 shares for executive directors
- Acquisition method of shares: Acquire from the exchange market
- Acquisition period of shares: From November 24, 2016 (planned) to December 12, 2016 (planned)

3. Consolidated Financial Statements

(1) Balance Sheets

(Millions of yen, rounded down)

	Fiscal 2015 (March 31, 2016)	Fiscal 2016–First 2 quarters (September 30, 2016)
ASSETS		
Current assets		
Cash and bank deposits	¥ 4,604	¥ 3,681
Notes and accounts receivable	14,493	13,941
Commodities and products	5,967	5,842
Goods in process	4,681	3,810
Materials and supplies	4,054	3,895
Deferred tax assets	941	941
Other	1,909	2,105
Allowance for doubtful accounts	(25)	(22)
Total current assets	36,627	34,195
Fixed assets		
Property, plant and equipment		
Buildings and structures (net)	9,831	9,575
Machinery and vehicles (net)	6,528	6,219
Land	19,782	19,610
Construction in progress	524	208
Other (net)	1,646	1,674
Total property, plant and equipment	38,313	37,288
Intangibles	317	328
Investments and other assets		
Investment securities	7,948	7,446
Net defined benefit asset	113	121
Deferred tax assets	2,815	2,982
Other	3,031	2,790
Allowance for doubtful accounts	(679)	(769)
Total investments and other assets	13,230	12,572
Total fixed assets	51,861	50,189
Deferred assets	19	14
Total assets	88,508	84,399

(Millions of yen, rounded down)

	Fiscal 2015 (March 31, 2016)	Fiscal 2016–First 2 quarters (September 30, 2016)
LIABILITIES		
Current liabilities		
Notes and accounts payable	¥12,190	¥11,814
Short-term borrowings	13,754	11,123
Accrued expenses	2,768	2,774
Reserve for employees' bonuses	861	858
Other	6,593	5,042
Total current liabilities	36,168	31,614
Long-term liabilities		
Long-term loans	15,391	17,453
Deferred tax liabilities for land revaluation	4,598	4,569
Net defined benefit liability	5,813	5,513
Other	2,591	2,262
Total long-term liabilities	28,395	29,799
Total liabilities	64,563	61,413
NET ASSETS		
Shareholders' equity		
Common stock	1,000	1,000
Capital surplus	796	796
Retained earnings	10,422	10,643
Treasury stock	(11)	(12)
Total shareholders' equity	12,207	12,427
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	641	105
Revaluation reserve for land	10,711	10,649
Foreign currency translation adjustment	(44)	(744)
Remeasurements of defined benefit plans	(1,649)	(1,543)
Total accumulated other comprehensive income	9,658	8,468
Non-controlling interests	2,079	2,089
Total net assets	23,945	22,985
Total liabilities and net assets	88,508	84,399

(2) Statements of Income and Statements of Comprehensive Income

Statements of Income

(Millions of yen, rounded down)

	Fiscal 2016–First 2 quarters (April 1–September 30, 2015)	Fiscal 2016–First 2 quarters (April 1–September 30, 2016)
Net sales	¥31,036	¥32,141
Cost of sales	24,619	24,893
Gross profit	6,416	7,247
Selling, general and administrative expenses	4,909	5,563
Operating income	1,507	1,684
Other income		
Interest income	14	11
Dividend income	105	138
Other	110	111
Total other income	230	260
Other expenses		
Interest expense	244	162
Foreign exchange losses	166	283
Other	286	264
Total other expenses	697	710
Ordinary income	1,041	1,235
Extraordinary income		
Gain on sales of non-current assets	—	4
Gain on sales of investment securities	10	6
Total extraordinary income	10	11
Extraordinary expenses		
Impairment loss	—	123
Loss on valuation of investment securities	—	0
Total extraordinary expenses	—	123
Income before income taxes	1,051	1,122
Income taxes	424	302
Profit	626	820
Profit attributable to non-controlling interests	11	10
Profit attributable to owners of parent	615	810

Statement of Comprehensive Income

(Millions of yen, rounded down)

	Fiscal 2015–First 2 quarters (April 1– September 30, 2015)	Fiscal 2016–First 2 quarters (April 1– September 30, 2016)
Profit	¥626	¥820
Other comprehensive income		
Valuation difference on available-for-sale securities	(509)	(535)
Foreign currency translation adjustment	(28)	(359)
Remeasurements of defined benefit plans, net of tax	80	106
Share of other comprehensive income (loss) of entities accounted for using equity method	(42)	(339)
Total other comprehensive income (loss)	(500)	(1,128)
Comprehensive income (loss)	126	(307)
Comprehensive income attributable to Comprehensive income (loss) attributable to owners of the parent	114	(318)
Comprehensive income attributable to non-controlling interests	11	10

(3) Statements of Cash Flows

(Millions of yen, rounded down)

	Fiscal 2015–First 2 quarters (April 1–September 30,2015)	Fiscal 2016–First 2 quarters (April 1–September 30, 2016)
Operating activities		
Income before income taxes	¥1,051	¥1,122
Depreciation	1,044	961
Increase (decrease) in reserve for employees' bonuses	(43)	(2)
Increase (decrease) in net defined benefit liability	(198)	(157)
Interest expense	244	162
Interest and dividend income	(120)	(149)
(Gain) loss on sales investments securities	(10)	(6)
(Increase) decrease in notes and accounts receivable	1,199	302
(Increase) decrease in inventories	(1,745)	817
Increase (decrease) in notes and accounts payable	2,133	(534)
Increase (decrease) in advances received	1,194	(1,130)
Other	(1,629)	(662)
Subtotal	3,120	721
Interest and dividends received	122	146
Interest paid	(245)	(165)
Directors' retirement bonuses paid	(21)	(9)
Income tax paid	(216)	(190)
Net cash provided by operating activities	2,759	503
Investing activities		
Purchases of investment securities	(9)	(343)
Proceeds from sales of investment securities	14	16
Payments of loans receivable	(50)	(276)
Collection of loans receivable	92	52
Purchases of property, plant and equipment	(1,333)	(660)
Proceeds from sales of property, plant and equipment	24	101
Other	(50)	(49)
Net cash used in investing activities	(1,312)	(1,159)
Financing activities		
Net increase (decrease) in short-term borrowings	2,955	(1,874)
Proceeds from long-term borrowings	500	3,000
Repayment of long-term borrowings	(4,450)	(1,175)
Cash dividends paid	(82)	(645)
Proceeds from disposal of treasury stock	3,371	0
Purchase of treasury stock	(3,084)	(1)
Repayments of lease obligations	(112)	(137)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(90)
Net cash provided by (used in) financing activities	(903)	(923)
Effect of exchange rate changes on cash and cash equivalents	(368)	668
Net increase (decrease) in cash and cash equivalents	175	(910)
Cash and cash equivalents at beginning of term	4,649	4,569
Cash and cash equivalents at end of term	4,825	3,659

(4) Notes on Consolidated Financial Statements

Notes on Going-concern Assumptions

Fiscal 2016–First 2 quarters (April 1– September 30, 2016)

None

Notes in the Event of Major Changes in Shareholders' Equity

Fiscal 2016–First 2 quarters (April 1– September 30, 2016)

None

Segment Information

Segment Information

Fiscal 2015–First 2 quarters (April 1– September 30, 2015)

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	¥14,267	¥6,711	¥6,101	¥632	¥27,712	¥3,323	¥31,036	¥ —	¥31,036
Intersegment sales or transfers	84	33	164	—	282	433	715	(715)	—
Total	14,352	6,744	6,265	632	27,995	3,757	31,752	(715)	31,036
Segment income (loss)	890	275	127	35	1,329	177	1,507	—	1,507

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 2016–First 2 quarters (April 1– September 30, 2016)

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	¥14,212	¥8,583	¥5,344	¥661	¥28,801	¥3,339	¥32,141	¥ —	¥32,141
Intersegment sales or transfers	72	27	129	—	229	341	570	(570)	—
Total	14,284	8,610	5,474	661	29,030	3,681	32,712	(570)	32,141
Segment income (loss)	1,084	840	(607)	174	1,491	193	1,684	—	1,684

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.

Significant Events

Fiscal 2016–First 2 quarters (April 1 – September 30, 2016)

Share consolidation, etc.

The Company resolved at its board of directors’ meeting held on May 23, 2016 on partial amendments to its Articles of Incorporation with regard to the change of the share unit number (from 1,000 shares to 100 shares). The Company also proposed an agenda regarding share consolidation (consolidating every 10 shares into 1 share and changing the total number of authorized shares from 400,000,000 shares to 40,000,000 shares) to the Annual Meeting of Shareholders held on June 28, 2016. The agenda was voted on and approved. The partial amendments to the Articles of Incorporation and the share consolidation were made effective on October 1, 2016.

Impacts on figures per unit are indicated in corresponding sections.