

NIPPON THOMPSON CO., LTD.

Corporate Headquarters: Tokyo

Listed Code: 6480

Listed Stock Exchange: Tokyo

(URL: <http://www.ikont.co.jp/eg/>)

November 6, 2017

Consolidated Financial Report
for the Second Quarter of the Fiscal Year Ending March 31, 2018
<Japanese GAAP>

Representative: Shigeki Miyachi, President and Representative Director

For further information contact: Kesaaki Ushikoshi, General Manager of Accounting Department

Telephone: +81-3-3448-5824

Scheduled Date to Submit Quarterly Annual Securities Report:	November 7, 2017
Scheduled Date to Begin Dividend Payments:	December 6, 2017
Preparation of Supplementary Explanation Material for Quarterly Financial Results:	Yes
Holding of Presentation Meeting for Quarterly Financial Results:	Yes (Targeted at institutional investors and analysts)

Figures have been rounded off to eliminate amounts less than one million yen.

1. Consolidated Operating Performance for the Six-month Period Ended September 30, 2017
(From April 1, 2017 to September 30, 2017)

(1) Results of Consolidated Operations

(Millions of yen)

	Net sales	Percentage change	Operating profit	Percentage change	Ordinary profit	Percentage change
September 30, 2017	26,043	22.5	710	2.3	790	—
September 30, 2016	21,260	(6.5)	694	(64.9)	(20)	—

Note: Comprehensive income

Six-month period ended September 30, 2017: 2,320 million yen — %

Six-month period ended September 30, 2016: (2,217) million yen — %

: Percentage change for net sales, operating profit, ordinary profit, and profit attributable to owners of parent indicate percentage increase/decrease compared to the same period in the previous year.

	Profit attributable to owners of parent	Percentage change	Earnings per share (Yen)	Diluted earnings per share (Yen)
September 30, 2017	1,043	—	14.51	14.49
September 30, 2016	(1,070)	—	(14.80)	—

(2) Consolidated Financial Position

	(Millions of yen)			
	Total assets	Net assets	Equity ratio (%)	Net assets per share (Yen)
September 30, 2017	99,337	60,534	60.5	835.43
March 31, 2017	99,627	58,605	58.4	810.11

Reference: Shareholders' equity

As of September 30, 2017: 60,095 million yen

As of March 31, 2017: 58,216 million yen

2. Dividends

(Yen)

Base date	Dividends per share				
	June 30	September 30	December 31	March 31	Full Fiscal Year
2018(Forecast)			—	6.50	13.00
2018	—	6.50			
2017	—	6.50	—	6.50	13.00

Note: Change in the current three-month period ended September 30, 2017, to dividend forecast: None

3. Forecast of Consolidated Operating Performance for the Fiscal Year Ending March 31, 2018

(Millions of yen)

	Net sales	Percentage change	Operating profit	Percentage change	Ordinary profit	Percentage change
Year ending March 31, 2018	52,500	19.0	2,300	100.8	2,400	165.0

	Profit attributable to owners of parent	Percentage change	Earnings per share (Yen)
Year ending March 31, 2018	2,000	—	27.80

Notes: Percentage change for net sales, operating profit, ordinary profit, and profit attributable to owners of parent indicate percentage increase/decrease compared to the same period in the previous year.

: Change in the current three-month period ended September 30, 2017, to consolidated operating performance forecast: Yes

4. Others

- (1) Changes in the state of significant subsidiaries during the period (Changes regarding specific companies accompanying changes in the scope of consolidation): None
- (2) Application of the special accounting methods for the presentation of the quarterly consolidated financial statements: Yes
Note: For further details, please refer on page 13.

- (3) Changes in accounting principles and accounting estimates, and restatements
- | | |
|---|------|
| Changes in accounting principles arising from revision of accounting standards: | None |
| Changes other than those in above: | None |
| Changes in accounting estimates: | None |
| Restatements: | None |

- (4) Number of shares issued (Common stock)

Number of shares outstanding at period-end (Including treasury stock)

As of September 30, 2017:	73,501,425 shares
As of March 31, 2017:	73,501,425 shares

Number of treasury stock

As of September 30, 2017:	1,568,274 shares
As of March 31, 2017:	1,638,790 shares

Average number of shares outstanding at period-end

Six-month period ended September 30, 2017:	71,901,493 shares
Six-month period ended September 30, 2016:	72,294,627 shares

Note: The number of treasury stock includes treasury stock held by the ESOP trust. This resulted in the addition to treasury stock of 43,000 shares as of September 30, 2017 and 113,700 shares as of March 31, 2017. In addition, treasury stock held by the ESOP trust is excluded from the calculation of the average number of shares outstanding at period-end, as is other treasury stock. The number of shares excluded from said calculation totaled 74,766 shares for the six-month period ended September 30, 2017 and 267,200 shares for the six-month period ended September 30, 2016.

These consolidated financial statements are not subject to quarterly review by auditors

Explanations or Other Items Pertaining to Appropriate use of Operating Performance Forecasts

Performance forecasts presented herein are based on information available to the Nippon Thompson Group (the "Group") as of the date of this document, November 6, 2017. Accordingly, for a wide variety of reasons, there remains the possibility that actual performance results may differ from projections. For performance forecasts, please refer on pages 6.

5. Operating Results and Financial Position

(1) Analysis of Operating Results

In the six-month period ended September 30, 2017, the Japanese economy saw continued gradual improvement due mainly to a pickup in employment figures, income levels, and corporate profits. Overseas, the U.S. and European economies continued to gradually recover, backed by rising personal consumption and private capital investment. The economies of China and other Asian countries appeared to recover.

Under these circumstances, the Nippon Thompson Group has entered the final fiscal year of its “IKO Mid-term business plan 2017 (three-year-plan) CHANGE & CHALLENGE.” Aiming to bolster its competitiveness and presence in global markets, the Group has implemented a wide range of initiatives to ensure sustainable growth and improve corporate value. In addition, two Chinese companies that the Group turned into subsidiaries in January 2017—(UBC (Shanghai) Precision Bearing Manufacturing Co., Ltd. and UBC (Suzhou) Bearing Co., Ltd.)—were brought into the scope of consolidation from the first quarter of fiscal 2018.

From a sales perspective, amid robust demand for private capital investment and a consistently high level of orders, the Group worked to further cultivate business ties with existing customers and develop new growth markets while focusing on expanding sales of strategic products, demand for which is expected to increase going forward.

From a production standpoint, the Group strove to strengthen its overseas production system in part by expanding the range of products produced by overseas subsidiary IKO Thompson Vietnam Co., Ltd. and improving production efficiency at UBC (Suzhou) Bearing Co., Ltd.

Turning to the Group's operational results, domestic sales increased, especially for electronics-related devices, including semiconductor manufacturing equipment and mounting equipment, due to active investment in semiconductor-related markets. In North America, sales rose, especially those of electronics-related devices and machine tools. In Europe, sales grew as demand remained strong mainly for medical equipment and machine tools. In Asia, sales soared due to stepped up investment in the automation of manufacturing equipment in China, higher demand for smart-phones and infrastructure-related products in China, and the inclusion of UBC (Shanghai) Precision Bearing Manufacturing Co., Ltd. as a consolidated subsidiary.

As a result, consolidated net sales for the six-month period under review totaled ¥26,043 million, up 22.5% year on year. On the earnings front, production efficiency worsened at the beginning of the period following the installation of a new mission-critical system and costs related to said system added to expenses. As a result, operating profit came to ¥710 million, rising only 2.3% year on year, and ordinary profit came to ¥790 million, compared to an ordinary loss of ¥20 million for the previous year. Profit attributable to owners of the parent amounted to ¥1,043 million, compared to loss attributable to owners of the parent of ¥1,070 million in the previous year.

Because the Group manufactures and sells Needle Roller Bearings, Linear Motion Rolling Guides and Machine Components on an integrated basis, disclosure of segment information has been omitted. Sales of Needle Roller Bearings and Linear Motion Rolling Guides totaled ¥22,770 million, a 21.9% increase compared with the corresponding period in the previous fiscal year. Sales of Machine Components incline 26.9% to ¥3,272 million.

Business Segment Information

	Six-month period ended September 30, 2017		Six-month period ended September 30, 2016		Change	
	Millions of yen	Component percentages	Millions of yen	Component percentages	Millions of yen	Percentage change
Needle Roller Bearings, Linear Motion Rolling Guides	22,770	87.4	18,682	87.9	4,088	21.9
Machine Components	3,272	12.6	2,578	12.1	694	26.9
Total net sales	26,043	100.0	21,260	100.0	4,783	22.5

(2) Analysis of Financial Position

Total assets as of September 30, 2017, totaled ¥99,337 million, a decrease of ¥289 million compared with the end of the previous fiscal year. This mainly comprised growth in notes and accounts receivable-trade of ¥1,217 million, securities of ¥3,200 million, investment securities of ¥1,262 million as well as decreases in cash and deposits of ¥4,374 million, inventories of ¥256 million, accounts receivable-other of ¥638 million and tangible fixed assets of ¥567 million.

Total liabilities amounted to ¥38,802 million, a decrease of ¥2,218 million compared with the end of the previous fiscal year. This mainly comprised growth in notes and accounts payable-trade of ¥1,586 million, long-term loans payable of ¥997 million, deferred tax liabilities of ¥376 million as well as decreases in short-term loans payable of ¥219 million and corporate bond of ¥5,000 million.

Total net assets stood at ¥60,534 million, an increase of ¥1,929 million compared with the end of the previous fiscal year. This mainly comprised growth in retained earnings of ¥575 million, net unrealized holding gains on available-for-sale securities of ¥895 million and foreign currency translation adjustments of ¥349 million.

Cash Flows

Cash and cash equivalents as of September 30, 2017 totaled ¥17,981 million, a decrease of ¥2,058 million compared with the end of the previous fiscal year.

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥3,924 million, an increase of ¥1,471 million compared with the corresponding period of the previous fiscal year. The major inflows were profit before income taxes of ¥1,076 million, depreciation and amortization of ¥1,528 million, a decrease in inventories of ¥522 million and increase in notes and accounts payable-trade of ¥1,465 million while the major outflows were an increase in notes and accounts receivable-trade of ¥1,112 million.

Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥1,447 million, a decrease of ¥1,318 million compared with the corresponding period of the previous fiscal year. This result was purchase of securities of ¥1,001 million and purchase of property, plant and equipment of ¥852 million.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥4,670 million. This was inflow of ¥874 million at the corresponding period of the previous fiscal year. The major inflow was proceeds from long-term loans payable of ¥2,100 million, while the major outflows were repayments of long-term loans payable of ¥1,106 million, redemption of bonds of ¥5,000 million and cash dividends paid of ¥467 million.

(3) Outlook

Looking forward, net sales are expected to exceed previous predictions as demand remains strong, and, in light of its first-half results, the Group has revised the full-year operating results forecast announced on May 15, 2017. In light of these economic conditions and the results of the first half of the fiscal year, the Group is forecasting consolidated net sales of ¥52.5 billion, operating profit of ¥2.3 billion, ordinary profit of ¥2.4 billion and profit attributable to owners of the parent of ¥2.0 billion for the year ending March 31, 2018.

6. Consolidated Financial Statements**(1) Consolidated Balance Sheets**

As of September 30, 2017 and March 31, 2017

	Millions of yen	
ASSETS	<u>September 30, 2017</u>	<u>March 31, 2017</u>
Current Assets:		
Cash and deposits	15,866	20,240
Notes and accounts receivable-trade	14,330	13,113
Securities	3,200	—
Finished products	12,058	13,186
Material in process	8,801	7,892
Raw material	4,800	4,837
Others	3,152	3,369
Less: Allowance for doubtful accounts	(11)	(11)
Total current assets	<u>62,199</u>	<u>62,629</u>
Fixed Assets:		
Tangible fixed assets:		
Machinery and vehicles	10,202	10,548
Others	10,101	10,324
Total tangible fixed assets	<u>20,304</u>	<u>20,872</u>
Intangible fixed assets	3,111	3,374
Investments and other assets:		
Investment securities	11,703	10,440
Others	2,063	2,356
Less: Allowance for doubtful accounts	(45)	(45)
Total investments and other assets	<u>13,721</u>	<u>12,751</u>
Total fixed assets	<u>37,137</u>	<u>36,998</u>
 TOTAL ASSETS	 <u><u>99,337</u></u>	 <u><u>99,627</u></u>

LIABILITIES	Millions of yen	
	September 30, 2017	March 31, 2017
Current Liabilities:		
Notes and accounts payable-trade	9,730	8,143
Short-term loans payable	181	400
Current portion of bonds	—	5,000
Current portion of long-term loans payable	3,506	3,133
Income taxes payable	455	202
Allowance for directors' and corporate auditors' bonuses	30	60
Others	3,904	3,920
Total current liabilities	17,808	20,861
Long-Term Liabilities:		
Corporate bond	10,000	10,000
Long-term loans payable	8,758	8,133
Net defined benefit liabilities	47	182
Others	2,188	1,844
Total long-term liabilities	20,994	20,160
TOTAL LIABILITIES	38,802	41,021
NET ASSETS		
Shareholders' Equity:		
Common stock	9,533	9,533
Capital surplus	12,887	12,887
Retained earnings	33,377	32,801
Treasury stock	(771)	(801)
Total shareholders' equity	55,026	54,420
Accumulated Other Comprehensive Income:		
Net unrealized holding gains on available-for-sale securities	4,871	3,975
Deferred gains or losses on hedges	(7)	6
Foreign currency translation adjustments	244	(104)
Remeasurements of defined benefit plans	(39)	(82)
Total accumulated other comprehensive income	5,069	3,795
Subscription rights to shares	76	30
Non-controlling interests	363	359
TOTAL NET ASSETS	60,534	58,605
TOTAL LIABILITIES AND NET ASSETS	99,337	99,627

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

For the six-month period ended September 30, 2017 and 2016

	Millions of yen	
	September 30, 2017	September 30, 2016
Net Sales	26,043	21,260
Cost of Sales	18,823	14,769
Gross Profit	7,220	6,491
Selling, General and Administrative Expenses	6,510	5,796
Operating Profit	710	694
Non-Operating Income:		
Interest income	5	5
Dividend income	103	96
Insurance return	72	0
Others	119	88
	301	191
Non-Operating Expenses:		
Interest expenses	71	60
Sales discounts	118	61
Foreign exchange losses	—	730
Others	32	52
	221	906
Ordinary Profit (loss)	790	(20)
Extraordinary income:		
Gain on sales of fixed assets	36	—
Compensation for transfer	250	—
	286	—
Profit (loss) before Income Taxes	1,076	(20)
Income Taxes	20	1,047
Profit (loss)	1,056	(1,067)
Profit attributable to non-controlling interests	12	2
Profit (loss) attributable to owners of parent	1,043	(1,070)

Consolidated Statements of Comprehensive Income

For the six-month period ended September 30, 2017 and 2016

	Millions of yen	
	<u>September 30, 2017</u>	<u>September 30, 2016</u>
Profit (loss)	1,056	(1,067)
Other Comprehensive Income:		
Net unrealized holding gains on available-for-sale securities	895	(31)
Deferred gains or losses on hedges	(14)	6
Foreign currency translation adjustments	340	(1,145)
Remeasurements of defined benefit plans	42	20
Total Other Comprehensive Income	<u>1,264</u>	<u>(1,149)</u>
Comprehensive Income	<u>2,320</u>	<u>(2,217)</u>
Breakdown:		
Comprehensive income attributable to owners of the parent	2,316	(2,216)
Comprehensive income attributable to non-controlling interests	3	(0)

(3) Consolidated Statements of Cash Flows

For the six-month period ended September 30, 2017 and 2016

	Millions of yen	
	<u>September 30, 2017</u>	<u>September 30, 2016</u>
Cash Flows from Operating Activities:		
Profit (loss) before Income Taxes	1,076	(20)
Depreciation and amortization	1,528	1,268
Decrease in account reserve	(30)	(37)
Decrease in net defined benefit liabilities	(134)	(125)
Interest and dividend income	(109)	(101)
Interest expenses	71	60
Foreign exchange gains (losses)	(46)	232
Loss on retirement of fixed assets	9	15
Compensation for transfer	(250)	—
Increase in notes and accounts receivable-trade	(1,112)	(748)
Decrease in inventories	522	1,345
Increase(Decrease) in notes and accounts payable-trade	1,465	(53)
Increase(Decrease) in accrued expenses	182	(231)
Others-net	308	887
Subtotal	<u>3,479</u>	<u>2,491</u>
Interest and dividend income received	109	101
Interest expenses paid	(81)	(52)
Proceeds from compensation for removal	250	—
Income taxes refund (paid)	166	(88)
Net cash provided by operating activities	<u>3,924</u>	<u>2,452</u>
Cash Flows from Investing Activities:		
Purchase of property, plant and equipment	(852)	(2,371)
Purchase of intangible assets	(68)	(210)
Others-net	(525)	(184)
Net cash used in investing activities	<u>(1,447)</u>	<u>(2,766)</u>

	Millions of yen	
	September 30, 2017	September 30, 2016
Cash Flows from Financing Activities:		
Net decrease in short-term loans payable	(211)	—
Proceeds from long-term loans payable	2,100	3,400
Repayments of long-term loans payable	(1,106)	(1,863)
Proceeds from issuance of bonds	—	5,000
Redemption of bonds	(5,000)	—
Redemption of bonds with subscription rights to shares	—	(4,999)
Payments for purchase of treasury stock	(0)	(232)
Cash dividends paid	(467)	(472)
Others-net	16	41
Net cash provided by (used in) financing activities	(4,670)	874
Effect of exchange rate change on cash and cash equivalents	134	(220)
Net increase(decrease) in cash and cash equivalents	(2,058)	340
Cash and cash equivalents at beginning of year	20,040	13,386
Cash and cash equivalents at end of period	17,981	13,726

(4) Notes on the Premise of a Going Concern

There are no applicable articles.

(5) Notes on the Statement of Changes in Consolidated Shareholders' Equity

There are no applicable articles.

(6) Application of the special accounting methods for the presentation of the quarterly consolidated financial statements

Calculation of tax expenses

Tax expenses are calculated by reasonably estimating the effective tax rate after the application of deferred tax accounting on profit before income taxes in the current consolidated fiscal year, including the second quarter, and multiplying profit before income taxes by said estimated effective tax rate. However, in cases where tax expenses calculations using the estimated effective tax rate produce results that are notably unreasonable, tax expenses are calculated by multiplying profit (loss) before income taxes by the statutory tax rate, with consideration given to the recoverability of deferred tax assets.