

NIPPON THOMPSON CO., LTD.

Corporate Headquarters: Tokyo

Listed Code: 6480

Listed Stock Exchange: Tokyo

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

November 12, 2018

Consolidated Financial Report
for the Second Quarter of the Fiscal Year Ending March 31, 2019
<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 13, 2018
Scheduled Date to Begin Dividend Payments:	December 12, 2018
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, 2018
(From April 1, 2018 to September 30, 2018)

(1) Results of Consolidated Operations

(Millions of yen)

	Net sales	Percentage change	Operating profit	Percentage change	Ordinary profit	Percentage change
September 30, 2018	29,296	12.5	2,521	255.2	2,860	262.1
September 30, 2017	26,043	22.5	710	2.3	790	—

Note: Comprehensive income

Six-month period ended September 30, 2018: 2,151 million yen (7.3) %

Six-month period ended September 30, 2017: 2,320 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, 2018	2,065	97.9	28.87	28.80
September 30, 2017	1,043	—	14.51	14.49

(2) Consolidated Financial Position

	(Millions of yen)			
	Total assets	Net assets	Equity ratio (%)	Net assets per share (Yen)
September 30, 2018	98,724	61,127	61.7	851.33
March 31, 2018	98,493	59,666	60.1	828.26

Reference: Shareholders' equity

As of September 30, 2018: 60,935 million yen

As of March 31, 2018: 59,217 million yen

2. Dividends

(Yen)

Base date	Dividends per share				
	June 30	September 30	December 31	March 31	Full Fiscal Year
2019(Forecast)			—	7.50	15.00
2019	—	7.50			
2018	—	6.50	—	6.50	13.00

Note: Change in the current three-month period ended September 30, 2018, to dividend forecast: None

3. Forecast of Consolidated Operating Performance for the Fiscal Year Ending March 31, 2019

(Millions of yen)

	Net sales	Percentage change	Operating profit	Percentage change	Ordinary profit	Percentage change
Year ending March 31, 2019	61,000	10.5	5,500	107.6	5,400	125.3

	Profit attributable to owners of parent	Percentage change	Earnings per share (Yen)
Year ending March 31, 2019	3,800	126.4	53.11

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, 2018, to consolidated operating performance forecast: None

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, 2018:	73,501,425 shares
As of March 31, 2018:	73,501,425 shares

Number of treasury stock

As of September 30, 2018:	1,924,744 shares
As of March 31, 2018:	2,005,532 shares

Average number of shares outstanding at period-end

Six-month period ended September 30, 2018:	71,543,139 shares
Six-month period ended September 30, 2017:	71,901,493 shares

Note: The number of treasury stock includes treasury stock held by the ESOP trust. This resulted in the addition to treasury stock of 431,900 shares as of September 30, 2018 and 480,100 shares as of March 31, 2018. 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 454,016 shares for the six-month period ended September 30, 2018 and 74,766 shares for the six-month period ended September 30, 2017.

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 12, 2018. 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, 2018, despite being somewhat impacted by several natural disasters, the Japanese economy saw continued gradual improvement due mainly to an increase in private capital investment that reflected a pickup in employment figures and strong corporate profits. Overseas economies saw improvement, especially in developed nations, but the future outlook grew more uncertain due to such factors as concerns over the impact of international trade frictions.

Under these circumstances, in April 2018, the Group launched “IKO Mid-term business plan 2020 (three-year-plan) CHANGE & CHALLENGE ~Next Stage –ACCOMPLISH–.” With the aims of realizing sustainable growth and establishing a highly profitable organization, the Group has been implementing a range of measures to solve priority issues through inter-departmental efforts and improve efficiency in all operations.

From a sales perspective, amid steady demand for private capital investment, the Group worked to further cultivate business ties with existing customers while focusing on reinforcing customer management using a new system.

In terms of product development, the Group worked to expand its lineup of products that provide high added value from the customer perspective. To this end, the Group developed the long stroke Precision Positioning Table TE series, designed to help make machinery lighter and more compact, and commenced sales of the series in October.

From a production standpoint, in light of robust demand in and outside Japan, the Group focused on reinforcing its frameworks to expand its production capacity. At domestic factories and the production subsidiary IKO Thompson Vietnam Co., Ltd., the Group worked quickly to upgrade its supply framework, mainly by increasing the number of personnel and expanding facilities. In addition, the Group strove to improve productivity by streamlining processes and enhancing management capabilities.

Turning to the Group’s operational results, although orders received, which had been very hot, began cooling in the second quarter and continue to do so, the balance of orders received remained high. In the domestic market, net sales increased due mainly to demand for electronics-related devices and machine tools. Overseas, in North America, demand for general industrial machinery was firm, but sales of electronics-related devices were sluggish, and net sales were virtually unchanged year on year. In Europe, demand for machine tools and general industrial machinery was strong, and net sales increased. In China, due to proactive sales efforts through local sales subsidiaries and sales agencies, net sales increased. In other regions, some customers in ASEAN countries took a cautious stance, and net sales edged down.

As a result, consolidated net sales for the six-month period under review totaled ¥29,296 million, up 12.5% year on year. On the earnings front, due in part to the increase in sales and a rise in production, operating profit came to ¥2,521 million, up 255.2% year on year, and ordinary profit was ¥2,860 million, up 262.1% year on year. Profit attributable to owners of the parent amounted to ¥2,065 million, up 97.9% year on year.

In addition, the value of needle roller bearings and linear motion rolling guides produced during the six-month period under review, totaled ¥28,012 million, up 40.0% year on year (based on average sales prices). The value of orders placed for these products and other machine components amounted to ¥33,110 million, up 3.0% year on 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 ¥25,913 million, a 13.8% increase compared with the corresponding period in the previous fiscal year. Sales of Machine Components incline 3.4% to ¥3,382 million.

Business Segment Information

	Six-month period ended September 30, 2018		Six-month period ended September 30, 2017		Change	
	Millions of yen	Component percentages	Millions of yen	Component percentages	Millions of yen	Percentage change
Needle Roller Bearings, Linear Motion Rolling Guides	25,913	88.5	22,770	87.4	3,142	13.8
Machine Components	3,382	11.5	3,272	12.6	110	3.4
Total net sales	29,296	100.0	26,043	100.0	3,253	12.5

(2) Analysis of Financial Position

Total assets as of September 30, 2018, totaled ¥98,724 million, an increase of ¥230 million compared with the end of the previous fiscal year. This mainly comprised growth in securities of ¥2,099 million, inventories of ¥1,520 million and deferred tax assets of ¥623 million as well as decreases in cash and deposits of ¥2,715 million, notes and accounts receivable-trade of ¥891 million and investment securities of ¥461 million.

Total liabilities amounted to ¥37,596 million, a decrease of ¥1,230 million compared with the end of the previous fiscal year. This mainly comprised a decrease in long-term loans payable of ¥1,389 million.

Total net assets stood at ¥61,127 million, an increase of ¥1,461 million compared with the end of the previous fiscal year. This mainly comprised growth in retained earnings of ¥1,596 million.

Cash Flows

Cash and cash equivalents as of September 30, 2018 totaled ¥17,405 million, a decrease of ¥613 million compared with the end of the previous fiscal year.

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥3,654 million, a decrease of ¥269 million compared with the corresponding period of the previous fiscal year. The major inflows were profit before income taxes of ¥2,718 million, depreciation and amortization of ¥1,638 million and a decrease in notes and accounts receivable-trade of ¥904 million while the major outflows were an increase in inventories of ¥1,237 million and income taxes paid of ¥373 million.

Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥2,155 million, an increase of ¥708 million compared with the corresponding period of the previous fiscal year. This result was purchase of property, plant and equipment of ¥1,942

million and purchase of intangible assets of ¥120 million.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥2,147 million, a decrease of ¥2,522 million compared with the corresponding period of the previous fiscal year. This result was repayments of long-term loans payable of ¥1,389 million, cash dividends paid of ¥468 million and payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation of ¥316 million.

(3) Outlook

Looking forward, the Group's operating results in the first half of the fiscal year have been largely as forecast at the start of the year. The Group has thus not amended the full-year operating results forecast announced on May 14, 2018.

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

As of September 30, 2018 and March 31, 2018

ASSETS	Millions of yen	
	September 30, 2018	March 31, 2018
Current Assets:		
Cash and deposits	15,388	18,104
Notes and accounts receivable-trade	15,481	16,373
Securities	2,099	—
Finished products	12,677	11,734
Material in process	9,242	8,713
Raw material	5,142	5,095
Others	922	1,301
Less: Allowance for doubtful accounts	(29)	(25)
Total current assets	<u>60,926</u>	<u>61,296</u>
Non-Current Assets:		
Tangible fixed assets:		
Machinery and vehicles	9,559	9,700
Others	11,323	10,613
Total tangible fixed assets	<u>20,882</u>	<u>20,313</u>
Intangible fixed assets	2,746	2,956
Investments and other assets:		
Investment securities	10,658	11,119
Others	3,559	2,856
Less: Allowance for doubtful accounts	(48)	(48)
Total investments and other assets	<u>14,168</u>	<u>13,927</u>
Total non-current assets	<u>37,797</u>	<u>37,196</u>
 TOTAL ASSETS	 <u><u>98,724</u></u>	 <u><u>98,493</u></u>

LIABILITIES	Millions of yen	
	September 30, 2018	March 31, 2018
Current Liabilities:		
Notes and accounts payable-trade	10,746	10,939
Current portion of long-term loans payable	2,755	2,778
Income taxes payable	1,220	479
Allowance for directors' and corporate auditors' bonuses	30	60
Others	5,027	5,319
Total current liabilities	19,780	19,577
Non-Current Liabilities:		
Corporate bond	10,000	10,000
Long-term loans payable	7,150	8,516
Net defined benefit liabilities	15	15
Others	649	717
Total non-current liabilities	17,815	19,249
TOTAL LIABILITIES	37,596	38,827
NET ASSETS		
Shareholders' Equity:		
Common stock	9,533	9,533
Capital surplus	12,875	12,887
Retained earnings	35,140	33,544
Treasury stock	(1,111)	(1,169)
Total shareholders' equity	56,437	54,795
Accumulated Other Comprehensive Income:		
Net unrealized holding gains on available-for-sale securities	4,117	4,450
Deferred gains or losses on hedges	(0)	0
Foreign currency translation adjustments	296	(154)
Remeasurements of defined benefit plans	83	125
Total accumulated other comprehensive income	4,497	4,422
Subscription rights to shares	114	76
Non-controlling interests	78	372
TOTAL NET ASSETS	61,127	59,666
TOTAL LIABILITIES AND NET ASSETS	98,724	98,493

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

For the six-month period ended September 30, 2018 and 2017

	Millions of yen	
	September 30, 2018	September 30, 2017
Net Sales	29,296	26,043
Cost of Sales	20,089	18,823
Gross Profit	9,206	7,220
Selling, General and Administrative Expenses	6,684	6,510
Operating Profit	2,521	710
Non-Operating Income:		
Interest income	7	5
Dividend income	137	103
Foreign exchange gains	202	30
Others	162	162
	509	301
Non-Operating Expenses:		
Interest expenses	43	71
Sales discounts	88	118
Others	38	32
	170	221
Ordinary Profit	2,860	790
Extraordinary Income:		
Gain on sales of fixed assets	0	36
Compensation for transfer	—	250
	0	286
Extraordinary Losses:		
Impairment loss	142	—
	142	—
Profit Before Income Taxes	2,718	1,076
Income Taxes	644	20
Profit	2,074	1,056
Profit attributable to non-controlling interests	8	12
Profit attributable to owners of parent	2,065	1,043

Consolidated Statements of Comprehensive Income

For the six-month period ended September 30, 2018 and 2017

	Millions of yen	
	September 30, 2018	September 30, 2017
Profit	2,074	1,056
Other Comprehensive Income:		
Net unrealized holding gains on available-for-sale securities	(332)	895
Deferred gains or losses on hedges	(1)	(14)
Foreign currency translation adjustments	453	340
Remeasurements of defined benefit plans	(42)	42
Total Other Comprehensive Income	77	1,264
Comprehensive Income	2,151	2,320
Breakdown:		
Comprehensive income attributable to owners of the parent	2,140	2,316
Comprehensive income attributable to non-controlling interests	11	3

(3) Consolidated Statements of Cash Flows

For the six-month period ended September 30, 2018 and 2017

	Millions of yen	
	<u>September 30, 2018</u>	<u>September 30, 2017</u>
Cash Flows from Operating Activities:		
Profit before Income Taxes	2,718	1,076
Depreciation and amortization	1,638	1,528
Impairment loss	142	—
Decrease in account reserve	(27)	(30)
Decrease in net defined benefit liabilities	(21)	(134)
Interest and dividend income	(144)	(109)
Interest expenses	43	71
Foreign exchange gains	(104)	(46)
Loss on retirement of fixed assets	12	9
Compensation for transfer	—	(250)
Decrease(Increase) in notes and accounts receivable-trade	904	(1,112)
Decrease(Increase) in inventories	(1,237)	522
Increase(Decrease) in notes and accounts payable-trade	(214)	1,465
Increase in accrued expenses	19	182
Others-net	394	308
Subtotal	<u>4,124</u>	<u>3,479</u>
Interest and dividend income received	144	109
Interest expenses paid	(43)	(81)
Proceeds from compensation for removal	—	250
Dismantlement expenses paid	(197)	—
Income taxes refund (paid)	(373)	166
Net cash provided by operating activities	<u>3,654</u>	<u>3,924</u>
Cash Flows from Investing Activities:		
Purchase of property, plant and equipment	(1,942)	(852)
Purchase of intangible assets	(120)	(68)
Others-net	(92)	(525)
Net cash used in investing activities	<u>(2,155)</u>	<u>(1,447)</u>

	Millions of yen	
	September 30, 2018	September 30, 2017
Cash Flows from Financing Activities:		
Net decrease in short-term loans payable	—	(211)
Proceeds from long-term loans payable	—	2,100
Repayments of long-term loans payable	(1,389)	(1,106)
Redemption of bonds	—	(5,000)
Cash dividends paid	(468)	(467)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(316)	—
Others-net	27	15
Net cash used in financing activities	(2,147)	(4,670)
Effect of exchange rate change on cash and cash equivalents	34	134
Net decrease in cash and cash equivalents	(613)	(2,058)
Cash and cash equivalents at beginning of year	18,019	20,040
Cash and cash equivalents at end of period	17,405	17,981

(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.

(7) Additional Information

The Group has adopted the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement NO. 28 on February 16, 2018), etc. from the beginning of the first quarter of the fiscal year under review. As a result, deferred tax assets are presented in investments and other assets, and deferred tax liabilities are presented in non-current liabilities.