

3. Consolidated Financial Forecasts for Fiscal 2017 (April 1, 2017 - March 31, 2018)

(Percentage figures are changes from the same period of the previous fiscal year)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Fiscal 2017	233,000	11.9	8,500	18.4	8,600	40.6	5,500	(23.5)	234.20

Note: Whether changes to the latest forecasts for consolidated figures have been made: Yes / No

* NOTE

(1) Changes in the State of Material Subsidiaries during the Period: None

Newly included: – Excluded: –

(2) Adoption of Special Accounting Methods for the Preparation of Quarterly Consolidated Financial Statements: Yes

Note: For details, please refer to “Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements.”

(3) Changes in Accounting Principles, Changes in Accounting Estimates, and Retrospective Restatements

(a) Changes in accounting principles accompanying the amendment of accounting standards: None

(b) Changes other than those in (a) above: None

(c) Changes in accounting estimates: None

(d) Retrospective restatements: None

(4) Number of Shares Issued (Common shares)

(a) Number of shares issued at the end of the period (including treasury stock)

Second Quarter of Fiscal 2017 24,077,510 shares Fiscal 2016 24,077,510 shares

(b) Number of treasury stock at the end of the period

Second Quarter of Fiscal 2017 593,718 shares Fiscal 2016 595,205 shares

(c) Average number of shares issued during the period

Second Quarter of Fiscal 2017 23,482,470 shares Second Quarter of Fiscal 2016 23,660,018 shares

* The Company consolidated ten shares of its common stock into one share on October 1, 2016, the effective day. As a result, the average number of shares issued during the period has been calculated under the assumption that the aforementioned consolidation of shares was carried out at the beginning of the previous consolidated fiscal year.

* A quarterly results report does not need to undergo a quarterly review.

* Explanation of the Appropriate Use of Performance Forecasts and Other Related Items

(Caution concerning future descriptions etc.)

The above estimate has been compiled based on information available at the time this disclosure was made. The actual earnings are subject to change from the estimated values due to various factors. For assumed conditions underlying the earnings forecast and cautionary statements in using the earnings forecast, please refer to “Explanation Regarding Future Estimate Information Such as Consolidated Financial Performance Estimates.”

(Method for acquiring supplementary briefing material on quarterly financial results)

The Company plans to hold a briefing session for institutional investors and securities analysts. A video of this briefing session and briefing material will be posted on the Company’s website promptly after the briefing session.

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Note: This document has been translated from the original Japanese version for reference purposes only. In the event of any discrepancy between this translated document and the original Japanese version, the original shall prevail.
The original disclosure in Japanese was released on November 2nd, 2017 at 13:30 (GMT+9).
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1. Qualitative Information Regarding Results of the Second Quarter for Fiscal 2017

(1) Explanation Regarding Consolidated Operating Results

During the second quarter of the consolidated fiscal year under review, the U.S. and European economy remained firm. In addition, China and emerging countries showed signs of a turnaround, helping the global economy record a moderate rebound as a whole. The Japanese economy remained on a moderate recovery trend supported chiefly by a sustained increase in employment and industrial production.

Under these circumstances, the Group made stable progress of the Growth & Change 2018 initiative of the mid-term management plan to achieve sustainable growth and offer great workplaces. As part of these efforts, a joint venture company was established in India for the steel wheel business, thereby accelerating its global development. Also, the Group decided to launch TACoil (Topy Advanced compact Coil), a new product which enables greater efficiency of bar processing whereby deformed bar is tightly rolled into a coil configuration in its steel business and started the construction of a dedicated production line. Additionally, it also continued to work on reassessing production systems and improving productivity according to demand, and rationalizing costs through energy saving and other measures.

With regard to the Group's financial results for the second quarter of the consolidated fiscal year under review, net sales and operating profit came to ¥107,235 million (up 10.3% year on year) and ¥3,605 million (up 86.8% year on year), and ordinary profit increased to ¥4,001 million (up 306.5% year on year). Profit attributable to owners of parent also rose to ¥2,768 million (up 135.2% year on year).

Performance by Segment

(Steel Business)

In the electric furnace industry, demand for steel materials remained strong. Meanwhile, prices of iron and steel scrap, the main raw materials, continued to increase after a temporary fall at the beginning of the period.

In this environment, the Group strived to rationalize sales prices backed by increasing steel demand. As a result, since there was a wider gap between sales prices and iron and steel scrap prices, net sales increased to ¥33,164 million (up 9.6% year on year). Operating profit came to ¥1,676 million (up 58.8% year on year).

(Automotive & Industrial Machinery Components Business)

In the automobile industry, the number of vehicles produced in Japan, and passenger cars in particular, increased year on year. However, there were signs of weakening in favorable demand trends in the United States. In the construction machinery industry, sales soared due to a surge in demand before the enforcement of emission control as well as a rise in demand in China on the back of an increase in infrastructure investments. Demand for mining equipment expanded due to increase etc. of coal price.

Given these conditions, the Group succeeded in selling a greater number of components, including parts for the undercarriages of construction machinery and very large-sized wheels for mining in particular. As a result, net sales stood at ¥66,244 million (up 11.0% year on year). Operating profit rose to ¥3,206 million (up 66.7% year on year), reflecting efforts to suppress labor costs and increase sales volume, along with other cost reductions

(Power Business)

The Group endeavored in the stable supply of electricity in line with its business plan. Net sales came to ¥4,628 million (up 10.9% year on year) due to increase in electricity sales price. Furthermore, although the coal price, fuel for power generation increased, operating profit grew 74.6% year on year to ¥482 million.

(Others)

The Topy Industries Group also engages in the manufacture and sales of synthetic mica used in cosmetics and other products, the manufacture and sales of crawler robots, wholesale electricity utility, indoor and outdoor sign systems, civil engineering and construction, leasing of real estate such as Topy-Rec Plaza (Minami-Suna, Koto-ku, Tokyo), and the operation of the sports club OSSO. Net sales were ¥3,197 million, and operating profit was ¥702 million.

(2) Explanation Regarding Financial Status

Total assets at the end of the second quarter of the consolidated fiscal year under review stood at ¥234,304 million, an increase of ¥11,254 million from the end of the previous consolidated fiscal year. This was largely due to an increase of ¥4,332 million in cash and deposits, an increase of ¥3,981 million in investment securities, and an increase of ¥3,479 million in inventories.

Liabilities were ¥126,942 million, or an increase of ¥8,746 million compared with the end of the previous consolidated fiscal year. This was caused mainly by an increase of ¥6,360 million in accounts payable and an increase of ¥1,962 million in short-term loans payable.

Net assets came to ¥107,361 million, or an increase of ¥258 million from the end of the previous consolidated fiscal year. This was attributable primarily to an increase of ¥1,674 million in valuation difference on available-for-sale securities and an increase of ¥1,119 million in retained earnings.

(3) Explanation Regarding Future Estimate Information Such as Consolidated Financial Performance Estimates

The global economy is expected to continue a steady recovery. The Japanese economy is also expected to recover moderately going forward thanks to improvements in employment/income conditions and the government policy, among other factors. Despite this, the business conditions surrounding the Group are likely to remain uncertain, given protectionist movements mainly in the United States and Europe, concern about the outlook of the economies of China and emerging countries, and production overcapacity in China, among other factors.

The Group has revised the full-year consolidated financial forecasts for the fiscal year ending March 31, 2018 (April 1, 2017 - March 31, 2018), announced on May 12, 2017, to net sales of ¥233,000 million, operating profit of ¥8,500 million, ordinary profit of ¥8,600 million, and profit attributable to owners of parent of ¥5,500 million. For more details, please refer to “Notice Regarding the Difference between Second Quarter Financial Forecasts and Actual Financial Results AND Revision of Full-Year Business Financial Forecast AND Revision of Dividend Forecast” announced November 2, 2017.

2. Quarterly Consolidated Financial Statements and Important Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	Previous Consolidated Accounting Term (March 31, 2017)	Second Quarter Consolidated Accounting Term (September 30, 2017)
Assets		
Current assets		
Cash and deposits	16,579	20,911
Notes and accounts receivable-trade	43,781	45,403
Merchandise and finished goods	12,337	14,120
Work in process	4,310	5,144
Raw materials and supplies	9,915	10,777
Deferred tax assets	1,530	1,586
Other	5,728	5,238
Allowance for doubtful accounts	(28)	(29)
Total current assets	94,154	103,153
Non-current assets		
Property, plant and equipment		
Buildings and structures	83,348	83,369
Accumulated depreciation	(54,051)	(54,622)
Buildings and structures, net	29,296	28,746
Machinery, equipment and vehicles	179,388	180,390
Accumulated depreciation	(134,090)	(136,039)
Machinery, equipment and vehicles, net	45,298	44,351
Land	15,499	15,131
Leased assets	3,955	3,409
Accumulated depreciation	(2,044)	(1,904)
Leased assets, net	1,910	1,504
Construction in progress	1,849	1,773
Other	32,809	33,178
Accumulated depreciation	(31,001)	(31,461)
Other, net	1,808	1,716
Total property, plant and equipment	95,663	93,224
Intangible assets		
Other	1,722	2,628
Total intangible assets	1,722	2,628
Investments and other assets		
Investment securities	27,272	31,253
Long-term loans receivable	626	474
Deferred tax assets	1,025	1,023
Other	2,681	2,642
Allowance for doubtful accounts	(94)	(95)
Total investments and other assets	31,510	35,297
Total non-current assets	128,895	131,150
Total assets	223,050	234,304

(Million yen)

	Previous Consolidated Accounting Term (March 31, 2017)	Second Quarter Consolidated Accounting Term (September 30, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	20,499	22,335
Electronically recorded obligations-operating	12,348	16,872
Short-term loans payable	16,503	18,466
Current portion of bonds	3,300	8,300
Lease obligations	604	565
Income taxes payable	738	1,041
Other	11,224	11,892
Total current liabilities	65,218	79,473
Non-current liabilities		
Bonds payable	20,800	15,800
Long-term loans payable	15,227	14,973
Lease obligations	1,765	1,129
Deferred tax liabilities	789	1,575
Provision for corporate officers' retirement benefits	195	201
Provision for officers' stock benefits	–	28
Reserve for repairs	305	171
Net defined benefit liability	11,031	10,988
Asset retirement obligations	177	170
Other	2,683	2,431
Total non-current liabilities	52,977	47,469
Total liabilities	118,196	126,942
Net assets		
Shareholders' equity		
Capital stock	20,983	20,983
Capital surplus	18,625	18,652
Retained earnings	59,922	61,041
Treasury shares	(1,728)	(1,728)
Total shareholders' equity	97,801	98,948
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	6,610	8,284
Deferred gains or losses on hedges	(14)	(2)
Foreign currency translation adjustment	332	(131)
Remeasurements of defined benefit plans	(778)	(632)
Total accumulated other comprehensive income	6,149	7,518
Non-controlling interests	902	894
Total net assets	104,853	107,361
Total liabilities and net assets	223,050	234,304

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
(Quarterly Consolidated Statements of Income)
(Second Quarter Consolidated Cumulative Accounting Term)

(Million yen)

	Previous Second Quarter Consolidated Cumulative Accounting Term (April 1, 2016 - September 30, 2016)	Second Quarter Consolidated Cumulative Accounting Term (April 1, 2017 - September 30, 2017)
Net sales	97,185	107,235
Cost of sales	81,859	89,345
Gross profit	15,325	17,890
Selling, general and administrative expenses	13,395	14,285
Operating profit	1,930	3,605
Non-operating income		
Interest income	35	32
Dividends income	329	363
Foreign exchange gains	–	420
Share of profit of entities accounted for using equity method	50	169
Other	73	169
Total non-operating income	488	1,156
Non-operating expenses		
Interest expenses	472	329
Foreign exchange losses	615	–
Other	346	430
Total non-operating expenses	1,434	759
Ordinary profit	984	4,001
Extraordinary income		
Gain on sales of non-current assets	6	14
Gain on sales of investment securities	20	51
Gain on investments in capital of subsidiaries and associates	624	–
Other	13	–
Total extraordinary income	665	66
Extraordinary losses		
Loss on sales of non-current assets	0	127
Loss on retirement of non-current assets	135	170
Loss on reduction of non-current assets	7	–
Other	3	0
Total extraordinary losses	146	297
Profit before income taxes	1,502	3,770
Income taxes	224	951
Profit	1,278	2,818
Profit attributable to non-controlling interests	101	50
Profit attributable to owners of parent	1,177	2,768

(Quarterly Consolidated Statements of Comprehensive Income)
(Second Quarter Consolidated Cumulative Accounting Term)

(Million yen)

	Previous Second Quarter Consolidated Cumulative Accounting Term (April 1, 2016 - September 30, 2016)	Second Quarter Consolidated Cumulative Accounting Term (April 1, 2017 - September 30, 2017)
Profit	1,278	2,818
Other comprehensive income		
Valuation difference on available-for-sale securities	(390)	1,649
Deferred gains or losses on hedges	(4)	11
Foreign currency translation adjustment	(3,888)	(461)
Remeasurements of defined benefit plans, net of tax	173	146
Share of other comprehensive income of associates accounted for using equity method	(7)	25
Total other comprehensive income	(4,116)	1,371
Comprehensive income	(2,838)	4,190
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(2,835)	4,137
Comprehensive income attributable to non-controlling interests	(2)	53

(3) Notes Regarding Quarterly Consolidated Financial Results

(Note Related to Going-Concern Assumption)

None

(Note on Significant Changes in the Amount of Shareholders' Equity)

None

(Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements)

Tax expenses were calculated by multiplying the rationally estimated effective tax rate after applying tax effect accounting to profit before income taxes for the consolidated fiscal year, which includes the current second quarter under review, by profit before income taxes for the second quarter.