

* NOTE

(1) Changes in the State of Material Subsidiaries during the Period: No

Newly included: – (Name) – Excluded: – (Name) –

(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 2019	24,077,510 shares	Fiscal 2018	24,077,510 shares
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(b) Number of treasury stock at the end of the period

Second Quarter of Fiscal 2019	582,676 shares	Fiscal 2018	582,007 shares
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(c) Average number of shares issued during the period

Second Quarter of Fiscal 2019	23,495,180 shares	Second Quarter of Fiscal 2018	23,486,041 shares
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* These consolidated financial results are not included in the scope of quarterly audits by certified public accountants or audit corporations.

* 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 1st, 2019 at 13:30 (GMT+9).
The Company assumes no responsibility for this translation or for direct, indirect or any other forms of damages arising from the translation.

1. Qualitative Information Regarding Results of the Second Quarter for Fiscal 2019

(1) Explanation Regarding Consolidated Operating Results

During the first half of the consolidated fiscal year under review, the U.S. economy continued to grow while further uncertainties surrounded the global economy amid the intensifying U.S.-China trade tensions followed by an economic slowdown in China. The Japanese economy continued to see improvements in employment and individual income, while exports and industrial production remained rather weak.

Under these circumstances, the Group launched Growth & Change 2021, the final stage in the series of medium-term management plans, at the beginning of the current fiscal year to achieve growth in the global arena as well as innovative changes for high earnings power with a focus on the prioritized agenda, including: (1) increase in earnings power; (2) manifestation of the Group synergies; (3) enhancement of strategic products; (4) taking on the challenge of innovation; and (5) further strengthening of the management foundation.

The financial results for the first half of the fiscal year under review include consolidated net sales of ¥137,196 million (up 1.5% year on year), aided by Asahi Tec Corporation, an aluminum wheel manufacturer that has recently become a wholly owned subsidiary of the Company. Meanwhile, operating profit declined to ¥2,325 million (down 30.6% year on year), ordinary profit declined to ¥1,552 million (down 54.1% year on year) and profit attributable to owners of parent declined to ¥858 million (down 61.8% year on year), primarily reflecting a lower sales volume of parts for the undercarriages of construction machinery, partially offset by the improved metal trading spreads and the contributions from newly consolidated subsidiaries.

Performance by Segment

(Steel Business)

In the electric furnace industry, demand for steel materials declined among both construction and manufacturing companies.

Auxiliary materials and energy prices remained high, while prices for steel scrap, a key raw material, declined.

Given these circumstances, the Group's net sales declined to ¥36,975 million (down 9.8% year on year), reflecting the lower sales volume. Operating profit increased to ¥2,139 million (up 65.0% year on year) due to the consistent cost reduction initiatives along with an expansion in the price spread aided by the efforts to sustain selling prices of products against steel scrap.

(Automotive & Industrial Machinery Components Business)

In the automotive industry, the volume of domestic automobile production increased year on year, while the volume of production in North America and China declined. In the construction machinery industry, Japanese manufacturers experienced lower unit sales of hydraulic shovels in China and Southeast Asia, followed by some inventory adjustments. Demand for mining machinery experienced a decline primarily in Southeast Asia, reflecting lower resource prices.

Given these conditions, the Group achieved net sales of ¥92,264 million (up 7.5% year on year) by taking advantage of the new consolidation of aluminum wheel manufacturer Asahi Tec Corporation, partially offset by the sales volume decline in parts for the undercarriages of construction machinery and mining machinery wheels. Meanwhile, operating profit was limited to ¥1,993 million (down 45.6% year on year), primarily reflecting lower sales volumes for parts for the undercarriages of construction machinery.

(Power Business)

The Group endeavored to maintain the stable supply of electricity in line with its business plan.

Net sales came to ¥4,609 million (down 6.1% year on year) with operating profit of ¥129 million (down 64.9% year on year), given the challenging business environment amid lower demand for electric power and intensifying price competition on the domestic front.

(Others)

The Group worked to prepare for the commercial production of synthetic mica used in cosmetics and other products, while focusing on the expansion of overseas and domestic sales. For crawler robots, the Group took steps to launch full-fledged marketing of a crawler mechanism for back/forth and left/right movements. Consequently, net sales for the period under review came to ¥3,346 million (down 2.2% year on year) with operating profit limited to ¥603 million (down 25.8% year on year), primarily reflecting heavy upfront investment for synthetic mica.

(2) Explanation Regarding Financial Status

Total assets at the end of the second quarter of the consolidated fiscal year under review stood at ¥269,559 million, a decrease of ¥14,639 million from the end of the previous consolidated fiscal year. This was mainly due to decreases of ¥8,642 million and ¥7,044 million in notes and accounts receivable - trade and cash and deposits, respectively.

Total liabilities were ¥157,882 million, or a decrease of ¥13,953 million compared with the end of the previous consolidated fiscal year, primarily reflecting a decrease in electronically recorded obligations-operating of ¥6,490 million and a decrease in notes and accounts payable - trade of ¥5,091 million.

Total net assets came to ¥111,676 million, or a decrease of ¥685 million from the end of the previous consolidated fiscal year, primarily reflecting a decrease in retained earnings of ¥790 million.

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

The global economy is expected to continue to face concerns about setbacks, given the protracted trade tensions between the United States and China along with China's economic slowdown. The Japanese economy is also expected to continue being exposed to the risk of economic setbacks with slowing export demand due to uncertainties in the global economy. Given this situation, it is expected that the business conditions surrounding the Group will remain unforeseeable.

The full-year consolidated financial forecast for the period from April 1, 2019 through March 31, 2020 (announced on May 10, 2019) has been updated. The Group expects that net sales will be ¥270,000 million with operating profit of ¥6,500 million, ordinary profit of ¥7,000 million, and profit attributable to the owners of parent of ¥4,500 million. For details, refer to the Announcement Regarding the Difference between the Cumulative Second Quarter Financial Forecast and Actual Results, and the Adjustment of the Consolidated Financial Forecast and Dividends Forecasts for Fiscal 2019, announced today.

2. Quarterly Consolidated Financial Statements and Important Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	Previous Consolidated Accounting Term (March 31, 2019)	Second Quarter Consolidated Accounting Term (September 30, 2019)
Assets		
Current assets		
Cash and deposits	29,671	22,626
Notes and accounts receivable - trade	59,818	51,175
Merchandise and finished goods	22,327	23,194
Work in process	7,413	6,906
Raw materials and supplies	15,169	14,362
Other	7,417	6,867
Allowance for doubtful accounts	(66)	(62)
Total current assets	141,751	125,071
Non-current assets		
Property, plant and equipment		
Buildings and structures	93,166	93,976
Accumulated depreciation	(62,636)	(63,608)
Buildings and structures, net	30,530	30,367
Machinery, equipment and vehicles	204,197	207,377
Accumulated depreciation	(157,286)	(160,128)
Machinery, equipment and vehicles, net	46,911	47,249
Land	15,287	15,363
Leased assets	5,089	5,072
Accumulated depreciation	(3,290)	(3,366)
Leased assets, net	1,799	1,706
Construction in progress	3,696	4,820
Other	42,392	42,912
Accumulated depreciation	(40,630)	(40,944)
Other, net	1,761	1,968
Total property, plant and equipment	99,986	101,474
Intangible assets		
Other	5,160	4,883
Total intangible assets	5,160	4,883
Investments and other assets		
Investment securities	27,093	28,137
Long-term loans receivable	478	486
Deferred tax assets	2,340	2,122
Net defined benefit asset	345	345
Other	7,100	7,087
Allowance for doubtful accounts	(58)	(48)
Total investments and other assets	37,300	38,130
Total non-current assets	142,447	144,487
Total assets	284,198	269,559

(Million yen)

	Previous Consolidated Accounting Term (March 31, 2019)	Second Quarter Consolidated Accounting Term (September 30, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	31,880	26,789
Electronically recorded obligations - operating	20,268	13,778
Short-term loans payable	19,414	15,393
Current portion of bonds	5,000	5,000
Lease obligations	878	709
Income taxes payable	2,170	699
Other	18,293	16,436
Total current liabilities	97,907	78,806
Non-current liabilities		
Bonds payable	22,800	27,800
Long-term loans payable	32,461	32,684
Lease obligations	888	614
Deferred tax liabilities	1,093	1,092
Provision for corporate officers' retirement benefits	162	197
Provision for officers' stock benefits	21	39
Provision for directors' retirement benefits	41	39
Reserve for repairs	371	235
Net defined benefit liability	12,617	12,931
Asset retirement obligations	373	368
Other	3,096	3,073
Total non-current liabilities	73,929	79,075
Total liabilities	171,836	157,882
Net assets		
Shareholders' equity		
Capital stock	20,983	20,983
Capital surplus	18,606	18,606
Retained earnings	68,532	67,742
Treasury shares	(1,708)	(1,710)
Total shareholders' equity	106,413	105,621
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	6,284	6,916
Deferred gains or losses on hedges	(5)	(3)
Foreign currency translation adjustment	(1,023)	(1,492)
Remeasurements of defined benefit plans	(365)	(408)
Total accumulated other comprehensive income	4,890	5,012
Non-controlling interests	1,057	1,042
Total net assets	112,362	111,676
Total liabilities and net assets	284,198	269,559

(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, 2018 - September 30, 2018)	Second Quarter Consolidated Cumulative Accounting Term (April 1, 2019 - September 30, 2019)
Net sales	135,173	137,196
Cost of sales	114,809	117,927
Gross profit	20,363	19,268
Selling, general and administrative expenses	17,015	16,943
Operating profit	3,348	2,325
Non-operating income		
Interest income	48	39
Dividends income	382	385
Foreign exchange gains	23	–
Share of profit of entities accounted for using equity method	153	270
Other	189	210
Total non-operating income	796	905
Non-operating expenses		
Interest expenses	324	313
Foreign exchange losses	–	490
Other	439	875
Total non-operating expenses	763	1,678
Ordinary profit	3,381	1,552
Extraordinary income		
Gain on sales of non-current assets	3	15
Gain on sales of investment securities	0	–
Total extraordinary income	3	15
Extraordinary losses		
Loss on sales of non-current assets	3	0
Loss on retirement of non-current assets	138	108
Other	0	1
Total extraordinary losses	142	109
Profit before income taxes	3,242	1,457
Income taxes	926	578
Profit	2,316	879
Profit attributable to non-controlling interests	70	21
Profit attributable to owners of parent	2,245	858

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

(Million yen)

	Previous Second Quarter Consolidated Cumulative Accounting Term (April 1, 2018 - September 30, 2018)	Second Quarter Consolidated Cumulative Accounting Term (April 1, 2019 - September 30, 2019)
Profit	2,316	879
Other comprehensive income		
Valuation difference on available-for-sale securities	795	647
Deferred gains or losses on hedges	13	1
Foreign currency translation adjustment	(718)	(345)
Remeasurements of defined benefit plans, net of tax	40	(43)
Share of other comprehensive income of associates accounted for using equity method	(40)	(140)
Total other comprehensive income	90	119
Comprehensive income	2,406	999
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,384	979
Comprehensive income attributable to non-controlling interests	21	19

(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.