

Financial Results for the Third Quarter Ended July 31, 2015 [Japan GAAP] (Consolidated)

Date: September 2, 2015
 Company Name and Code: Tomoe Engineering Co., Ltd. and Subsidiaries - 6309
 (URL: http://www.tomo-e.co.jp/index_e.html)
 Stock exchange listing: 1st Section, Tokyo Stock Exchange
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 Date to report Quarterly Consolidated Financial Statement: September 11, 2015
 Date for Dividend Payment: Not applicable to this financial quarter
 Preparation of Supplementary Explanatory Materials for Quarterly Operating Results: Not prepared
 Briefing Session for Quarterly Operating Results: Not planned

* Any fractional sums less than one million (or one thousand) yen are disregarded

1. Consolidated Financial Data for the Third Quarter Ended July 31, 2015

(1) Results of Operation (Consolidated) (Percent: Change from the same quarter of the previous year)

	Net Sales		Operating Income		Ordinary Income	
	Millions of Yen	Percent	Millions of Yen	Percent	Millions of Yen	Percent
Quarter Ended July 31, 2015	28,923	-1.3	680	-12.0	1,016	0.8
Quarter Ended July 31, 2014	29,307	5.0	773	-14.1	1,009	-0.6

	Net Income		Net Income per Share	Fully Diluted Quarterly Net Income per Share
	Millions of Yen	Percent	Yen	Yen
Quarter Ended July 31, 2015	775	5.8	77. ⁷⁵	-
Quarter Ended July 31, 2014	733	25.1	73. ⁴⁷	-

(Note) Comprehensive income

Third Quarter ended July 31, 2015: 1,057 million yen (26.4%) Third Quarter ended July 31, 2014: 836 million yen (-28.5%)

(2) Financial Condition (Consolidated)

	Total Assets (A) (Millions of Yen)	Net Assets (B) (Millions of Yen)	Net Assets Ratio (B) / (A) (Percent)
Quarter Ended July 31, 2015	32,791	25,019	76.3
Year Ended October 31, 2014	33,817	23,943	70.8

(Reference) Net assets

Third Quarter ended July 31, 2015: 25,019 million yen Year Ended October 31, 2014: 23,943 million yen

2. Dividend Status

(Record Date)	Annual Dividend (Yen)				
	First Quarter	Interim Term	Third Quarter	End of Fiscal Year	Annual
Year Ended October 31, 2014	-	22. ⁵⁰	-	22. ⁵⁰	45. ⁰⁰
Year Ending October 31, 2015	-	22. ⁵⁰	-		
Year Ending October 31, 2015 (Prospect)				22. ⁵⁰	45. ⁰⁰

(Note) Revisions since the most recently released dividend projection: None

3. Forecast for Earnings for the Year Ending October 31, 2015 (Consolidated)

(Percent change from the previous Full Business Year)

	Net Sales		Operating Income		Ordinary Income	
	(Millions of Yen)	(Percent)	(Millions of Yen)	(Percent)	(Millions of Yen)	(Percent)
Full Business Year	40,370	-0.8	1,280	0.5	1,500	-7.9

	Net Income		Net Income per Share
	(Millions of Yen)	(Percent)	Yen
Full Business Year	1,030	-6.6	103.22

(Note) Revisions since the most recently released dividend projection: None

Notes

(1) Significant changes in subsidiaries during this period (changes in specific subsidiaries involving changes in the scope of consolidation): None

Number of new subsidiaries: __ (Company names):

Number of eliminated subsidiaries: __ (Company names):

(2) Adoption of simplified accounting method and the specific accounting method: None

(3) Changes of the principles, procedures, and representation of the accounting policies

1) Change due to revision of accounting standard: Existing

2) Other changes than the above 1): None

3) Change in accounting estimates: None

4) Retrospective restatements: None

For more information, please refer to the supporting data on page 4, (3) Changes in accounting principles, changes in accounting estimates and retrospective restatements

(4) Number of outstanding shares (Common stock)

1) Number of outstanding shares as of quarter-end and year-end (including treasury stocks)

At July 31, 2015: 10,533,200 shares

At October 31, 2014: 10,533,200 shares

2) Number of treasury stocks as of quarter-end and year-end

At July 31, 2015: 554,667 shares

At October 31, 2014: 554,667 shares

3) Number of average shares (accumulated quarterly total)

At July 31, 2015: 9,978,533 shares

At July 31, 2014: 9,978,577 shares

*Disclosure concerning status of implementation of quarterly review procedure

This quarterly earnings report is exempt from the quarterly review procedure based on the Financial Instruments and Exchange Act. At the time of disclosure of this quarterly earnings report, the Company has not completed a quarterly review procedure based on the Financial Instruments and Exchange Act.

*Explanations for appropriate use of the earnings forecast and other special instructions

The forward-looking statements such as a forecast of our financial results described herein are based on the information currently available to us and certain assumptions that we believe are reasonable. Actual results could differ materially due to various factors. Please refer to the Financial Results for the Quarter (Attachments) on page 3, (3) [Analysis of Future Forecast on Consolidated Earnings Forecast] of 1. [Qualitative Information on Quarterly Consolidated Operating Results] for the operating results forecast.

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1. Qualitative Information on Quarterly Consolidated Operating Results

(1) Analysis of Operating Results

During the consolidated third quarter under review, Japan's economy maintained a gradual recovery trend that was driven by several factors, including a rising trend in capital investment supported by an improvement of corporate earnings, and a brisk movement in personal consumption against the backdrop of an improved household income and employment. More recently, the pace of the recovery in Japan is tapering off with the decline in exports and personal consumption. Overseas, even as the U.S. economy maintained its recovery trend, conditions remained opaque because of the weakness in growth evident in the economies of newly developing countries including China, and negative factors included the adverse effects of a slump in crude oil prices and the Greek debt problem in Europe.

Given these circumstances, net sales for the Tomoe Engineering Group for the consolidated third quarter slipped 1.3% from the same period last year to 28,923 million yen. In the Machinery & Equipment Business, net sales for domestic public sector demand and overseas net sales of equipment and works, components and repair services were off, while in the Chemical Products Business net sales for the domestic plastics sector and fine chemicals sector also decreased. With respect to earnings during the period, operating income was 680 million yen, 12.0% down from the same period one year earlier, reflecting the decrease in total net sales in both businesses. On the other hand, ordinary income was 1,016 million yen, 0.8% up from the same period of the prior year, thanks to the contribution from an increase in foreign exchange gains. A gain on sales of investment securities and other assets, which is reported in extraordinary income, as well as a decrease in taxes as a result of the revaluation of deferred tax assets and liabilities in conjunction with the reduction of the normal effective statutory tax rate as part of the fiscal 2015 tax reform, served as additional factors boosting net income. As a result, net income for the period was 775 million yen, 5.8% up from the same period of the prior year.

Operating results by segment were as follows.

(Machinery & Equipment Business)

In the Machinery & Equipment Business, consolidated net sales for the year-to-date period were 6,401 million yen, 1.3% down from the same period last year. Although overall net sales for domestic private sector demand remained strong, net sales of machinery, equipment and works and components and repair services for domestic public sector demand as well as net sales of equipment and works and components and repair services for overseas markets declined.

From an earnings aspect, because of the decline in net sales of the entire Machinery & Equipment Business, which was alleviated only by the net sales of machinery for high-margin overseas markets, mainly in North America, during the first half of the fiscal year, the operating loss was 99 million yen, or nearly the same level as reported in the same period one year ago.

(Chemical Products Business)

In the Chemical Products Business, sales in the industrial materials sector for additive for use in aluminum alloy, and housing and construction applications, sales in the electronics materials sector of transport trays for semiconductor manufacturing applications, and sales of commodity plastics in Hong Kong remained strong, but sales in the plastics sector and the fine chemicals sector for the domestic market decreased. As a result, consolidated net sales for the year-to-date period were 22,522 million yen, 1.3% down from the same period one year ago.

With respect to earnings during the period, operating income was 780 million yen, 10.8% down from the same period one year earlier. Factors behind this performance included the decline in net sales of the entire Chemical Products Business, and the declining profitability because of a contraction in sales in the plastic compounding business in Shenzhen, China.

(2) Analysis of Financial Condition

Total assets as of the end of the consolidated third quarter under review were 32,791 million yen, down 3.0% or 1,026 million yen from the end of the previous consolidated fiscal year. This mainly reflected an increase of 560 million yen in inventory, an increase of 774 million yen in asset for retirement benefits, a decrease of 364 million yen in cash and deposits, and a decrease of 1,993 million yen in notes and accounts receivable–trade.

Liabilities were 7,771 million yen, down 21.3% or 2,102 million yen from the end of the previous consolidated fiscal year, mainly because of a decrease of 814 million yen in notes and accounts payable-trade, a decrease of 527 million yen in income tax payable, a decrease of 295 million yen in advances received, and a decrease of 345 million yen in provision for Bonuses.

Net assets stood at 25,019 million yen, 1,075 million yen or 4.5% up from the end of the previous consolidated fiscal year. This mainly reflected an increase of 793 million yen in retained earnings and a 204 million yen increase in the translation adjustments account.

As a result of the above changes, the equity ratio at the end of the consolidated third quarter under review rose by 5.5 point compared with the end of the previous consolidated fiscal year to 76.3%.

(3) Analysis of Future Forecast on Quarterly Consolidated Earnings Forecast

There are no revisions to the consolidated earnings forecast figures for the fiscal year ending in October 31, 2015 that were announced in the “Announcement of Amendment to Earning Forecast” released on May 29, 2015.

2. Matters Concerning Summary Information (Notes)

(1) Changes to material subsidiaries during the consolidated cumulative third quarter:

There are no pertinent matters to report. However at the Board of Directors meeting held on February 27, 2015, Interstella Plastics (Shenzhen) Co., Ltd., a specified subsidiary, approved a resolution to dissolve and is currently in liquidation.

(2) Application of special accounting method in the preparation of quarterly consolidated financial statements:

There are no pertinent matters to report.

(3) Changes in accounting principles, changes in accounting estimates and retrospective restatements:

(Application of the Accounting Standard for Retirement Benefits)

Beginning from the first quarter consolidated accounting period, the Company has applied the *Accounting Standard for Retirement Benefits* (Accounting Standards Board of Japan (ASBJ) Statement No. 26, referred to below as “the Retirement Benefit Accounting Standard”) and the *Implementation Guidance on Accounting Standard for Retirement Benefits* (ASBJ Guidance No. 25, referred to below as “the Retirement Benefits Implementation Guidance”) under the provisions in the main clauses of Article 35 of the *Accounting Standard for Retirement Benefits* and Article 67 of the *Guidance on Accounting Standard for Retirement Benefits*. The Company has revised its calculation methods for retirement benefit obligations and service costs, and together with changing its method for attributing projected retirement benefits to periods from the straight-line basis to the benefit formula basis, also has revised its method for determining the discount rate, from a method based on the number of years approximate to the expected average remaining working lives of employees, to a method that uses a single weighted average discount rate reflecting the estimated retirement benefit payment periods and amount per each estimated retirement benefit payment period.

To apply the *Accounting Standard for Retirement Benefits*, the Company has recognized the effect of this revision to its calculation methods for retirement benefit obligations and service costs by adjusting the balance of retained earnings at the beginning of third quarter consolidated accounting period, in accordance with the transitional provisions set forth in paragraph 37 of the *Accounting Standard for Retirement Benefits*.

As a result, net defined benefit assets increased by ¥725,010,000 yen, and retained earnings increased by ¥466,457,000 yen, as of the beginning of the third quarter consolidated accounting period. The effect of this change on third quarter consolidated accounting period earnings is not material.

(4) Additional information

(Effect of revisions to the corporate tax rate)

With the promulgation of the Act for Partial Revision of the Local Tax Act (Act No. 2 of 2015) and the Act for Partial Revision of the Income Tax Act Etc. (Act No. 9 of 2015) on March 31, 2015, Japan’s corporate tax rate and business tax rate will be reduced in the consolidated fiscal year beginning on or after April 1, 2015. In conjunction with this change, the statutory effective tax rate used to calculate deferred tax assets and deferred tax liabilities will be revised from 35.64% applied in the past to 33.06% for temporary differences expected to be eliminated in the consolidated fiscal year that begins on November 1, 2015, and to 32.26% for temporary differences expected to be eliminated in the consolidated fiscal years that begin from November 1, 2016.

As a result, deferred tax liabilities (the amount after deducting deferred tax assets) have been reduced by 113,587,000 yen. In addition, income taxes-deferred have been reduced by 102,652,000 yen.

3. Quarterly Consolidated Financial Statement

(1) Quarterly Consolidated Balance Sheets (Third Quarter)

(Thousands of Yen)

Assets	End of Previous Year (October. 31, 2014)	End of Third Quarter (July 31, 2015)
Current Assets		
Cash and Deposits	5,661,622	5,297,404
Notes and Accounts Receivable-Trade	14,321,437	12,327,750
Merchandise and Finished Goods	2,834,556	2,928,198
Work in Process	1,193,440	1,447,790
Raw Materials and Supplies	772,969	985,650
Deferred Tax Assets	579,233	284,798
Others	225,244	665,335
Allowance for Doubtful Accounts	-5,251	-3,570
Total Current Assets	25,583,252	23,933,358
Noncurrent Assets		
Property, Plant and Equipment		
Buildings and Structures	2,742,339	4,480,824
Accumulated Depreciation	-1,533,884	-1,527,122
Buildings and Structures, Net	1,208,455	2,953,702
Machinery, Equipment and Vehicles	4,045,863	4,131,309
Accumulated Depreciation	-3,346,731	-3,499,277
Machinery, Equipment and Vehicles, Net	699,131	632,032
Land	930,711	1,938,805
Construction in progress	2,581,210	-
Others	1,102,854	1,125,990
Accumulated Depreciation	-977,538	-998,771
Others, Net	125,316	127,219
Total Property, Plant and Equipment	5,544,824	5,651,758
Intangible Assets	451,969	388,101
Investments and Other Assets		
Investment Securities	1,255,543	1,263,542
Guarantee Deposits	243,293	83,932
Net Defined Benefit Assets	596,943	1,371,022
Deferred Tax Assets	36,616	-
Others	128,527	122,067
Allowance for Doubtful Accounts	-22,995	-22,685
Total Investments and Other Assets	2,237,928	2,817,879
Total Noncurrent Assets	8,234,723	8,857,739
Total Assets	33,817,976	32,791,098

(Thousands of Yen)

Liabilities and Net Assets	End of Previous Year (October. 31, 2014)	End of Third Quarter (July 31, 2015)
Liabilities		
Current Liabilities		
Notes and Accounts Payable-Trade	5,970,933	5,156,331
Accounts Payable-Others	535,396	479,122
Income Taxes Payable	543,046	15,261
Advances Received	431,020	135,351
Provision for Bonuses	731,676	386,621
Provision for Directors' Bonuses	36,900	31,161
Allowance for Product Warranty	223,618	118,589
Others	305,463	202,977
Total Current Liabilities	8,778,056	6,525,416
Noncurrent Liabilities		
Provision for Directors' Retirement Benefits	18,680	5,460
Net Defined Benefit Liabilities	48,646	50,432
Deferred Tax Liabilities	1,028,769	1,190,545
Total Noncurrent Liabilities	1,096,096	1,246,437
Total Liabilities	9,874,153	7,771,854
Net Assets		
Shareholders' Equity		
Capital Stock	1,061,210	1,061,210
Capital Surplus	1,483,410	1,483,410
Retained Earnings	21,267,920	22,061,126
Treasury Stock	-363,591	-363,591
Total Shareholders' Equity	23,448,949	24,242,155
Accumulated Other Comprehensive Income		
Valuation Difference on Available-for-Sale Securities	305,484	383,715
Deferred Gains or Losses on Hedges	1,272	530
Foreign Currency Translation Adjustment	311,609	516,503
Total Adjustment on Net Defined Benefit	-123,493	-123,661
Total Accumulated Other Comprehensive Income	494,873	777,088
Total Net Assets	23,943,822	25,019,244
Total Liabilities and Net Assets	33,817,976	32,791,098

(2) Quarterly Consolidated Statements of Income & Quarterly Consolidated Statements of Comprehensive Income

Quarterly Consolidated Statements of Income (Third Quarter)

(Thousands of Yen)

	Third Quarter Ended July 31, 2014	Third Quarter Ended July 31, 2015
Net Sales	29,307,351	28,923,701
Cost of Sales	23,798,779	23,372,833
Gross Profit	5,508,571	5,550,867
Selling, General and Administrative Expenses	4,735,198	4,870,071
Operating Income	773,372	680,796
Non-Operating Income		
Interest Income	13,942	12,031
Dividends Income	122,252	25,860
Rent Income	7,212	5,224
Foreign Exchange Gains	77,244	288,946
Others	37,889	23,846
Total Non-Operating Income	258,540	355,909
Non-Operating Expenses		
Interest Expenses	5,246	1,065
Commission Paid	8,719	8,743
Sales Discount	4,212	4,262
Others	4,374	5,672
Total Non-Operating Expenses	22,553	19,744
Ordinary Income	1,009,360	1,016,962
Extraordinary Income		
Gain on Sales of Noncurrent Assets	-	27,420
Gain on Sales of Investment Securities	-	58,703
Gain on Negative Goodwill	145,132	-
Total Extraordinary Income	145,132	86,124
Extraordinary Expenses		
Loss on Retirement of Noncurrent Assets	6,385	-
Loss on of Sales Noncurrent Assets	2,034	-
Total Extraordinary Expenses	8,420	-
Income before Income Taxes and Minority Interests	1,146,073	1,103,086
Income Taxes-Current	297,252	115,631
Income Taxes-Deferred	123,807	211,672
Total Income Taxes	421,059	327,303
Income before Minority Interests	725,013	775,782
Minority Interests in Income or Loss (-)	-8,089	-
Net Income	733,102	775,782

Quarterly Consolidated Statements of Comprehensive Income (Third Quarter)

(Thousands of Yen)

	Third Quarter Ended July 31, 2014	Third Quarter Ended July 31, 2015
Income before Minority Interests	725,013	775,782
Other Comprehensive Income		
Valuation Difference on Available-for-sale Securities	51,233	78,231
Deferred Gains or Losses (-) on Hedges	92	-741
Foreign Currency Translation Adjustment	60,453	204,893
Net Defined Benefit	-	-168
Total Other Comprehensive Income	111,779	282,215
Comprehensive Income	836,793	1,057,997
(Breakdown)		
Comprehensive Income attributable to Owners of the Parent	833,896	1,057,997
Comprehensive Income attributable to Minority Interests	2,896	-

(3) Notes on Quarterly Consolidated Financial Statements

(Note for premise of going concern)

There are no pertinent matters to report.

(Notes for significant changes in shareholder's equity)

There are no pertinent matters to report.

(Segment Information, etc.)

Third Quarter Ended July 31, 2014

1 Information Pertaining to the Amount of Net Sales or Net Loss of Each Reporting Segment

(Thousands of Yen)

	Reported Segment			Grand Total
	Machinery & Equipment Business	Chemical Products Business	Total	
Net Sales				
Net Sales to Unaffiliated Customers				
Internal Net Sales among Segments or Amount Transferred	6,487,575	22,819,776	29,307,351	29,307,351
	-	-	-	-
Total	6,487,575	22,819,776	29,307,351	29,307,351
Segment Profit or Loss (-)	-101,461	874,834	773,372	773,372

(Note) The total amount of segment profit is identical to the operating income reported on the Quarterly Consolidated Statements of Income.

2 Information Concerning Impairment Loss on Noncurrent Assets, Goodwill, and Other Items by Reporting Segment

(Material gain on negative goodwill)

The Tomoe Engineering Group had a gain on negative goodwill in the Chemical Products Business in conjunction with the acquisition of the stock of Interstella Co., Ltd., a consolidated subsidiary of Tomoe Engineering, which was owned by another company. The reported amount of the gain on negative goodwill in the consolidated Third Quarter under review as a result of this acquisition was 145,132,000 yen.

Third Quarter Ended July 31, 2015

1 Information Pertaining to the Amount of Net Sales or Net Loss of Each Reporting Segment

(Thousands of Yen)

	Reported Segment			Grand Total
	Machinery & Equipment Business	Chemical Products Business	Total	
Net Sales				
Net Sales to Unaffiliated Customers				
Internal Net Sales among Segments or Amount Transferred	6,401,112	22,522,588	28,923,701	28,923,701
	-	-	-	-
Total	6,401,112	22,522,588	28,923,701	28,923,701
Segment Profit or Loss (-)	-99,578	780,375	680,796	680,796

(Note) The total amount of segment profit is identical to the operating income reported on the Quarterly Consolidated Statements of Income.

4. Overseas Net Sales (Supplemental Information)

Third Quarter Ended July 31, 2014

(Thousands of Yen)

	Asia	Other Regions	Total
I. Overseas Net Sales	4,178,698	689,038	4,867,737
II. Consolidated Net Sales	—	—	29,307,351
III. Ratio of Overseas Net Sales to Consolidated Net Sales (%)	14.3	2.4	16.6

(Notes)

1. Areas including countries or regions are determined based on their degree of geographical proximity.
2. Main countries or regions included in the areas:
 - (1) Asia: China, Korea, Taiwan and Indonesia
 - (2) Other regions: America and Europe
3. Overseas net sales are sales of our company and subsidiaries made in countries and regions other than Japan.

Third Quarter Ended July 31, 2015

(Thousands of Yen)

	Asia	Other Regions	Total
I. Overseas Net Sales	3,712,590	1,674,467	5,387,058
II. Consolidated Net Sales	—	—	28,923,701
III. Ratio of Overseas Net Sales to Consolidated Net Sales (%)	12.8	5.8	18.6

(Notes)

1. Areas including countries or regions are determined based on their degree of geographical proximity.
2. Main countries or regions included in the areas:
 - (1) Asia: China, Korea, Taiwan and Indonesia
 - (2) Other regions: America and Europe
3. Overseas net sales are sales of our company and subsidiaries made in countries and regions other than Japan.