

# Financial Results for the Third Quarter Ended July 31, 2016 [Japan GAAP] (Consolidated)

Date: August 31, 2016  
 Company Name and Code: Tomoe Engineering Co., Ltd. and Subsidiaries - 6309  
 (URL: [http://www.tomo-e.co.jp/index\\_e.html](http://www.tomo-e.co.jp/index_e.html))  
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 Date to report Quarterly Consolidated Financial Statement: September 12, 2016  
 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, 2016

(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, 2016	28,373	-1.9	1,091	60.3	910	-10.5
Quarter Ended July 31, 2015	28,923	-1.3	680	-12.0	1,016	0.8

	Net Income Attributable to Owners of the Parent		Net Income per Share	Fully Diluted Quarterly Net Income per Share
	Millions of Yen	Percent	Yen	Yen
Quarter Ended July 31, 2016	441	-43.0	44. <sup>29</sup>	-
Quarter Ended July 31, 2015	775	5.8	77. <sup>15</sup>	-

(Note) Comprehensive income

Third Quarter ended July 31, 2016: 50 million yen (-95.2%) Third Quarter ended July 31, 2015: 1,057 million yen (26.4%)

(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, 2016	34,087	24,801	72.8
Year Ended October 31, 2015	34,341	25,200	73.4

(Reference) Net assets

Third Quarter ended July 31, 2016: 24,801 million yen Year Ended October 31, 2015: 25,200 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, 2015	-	22. <sup>50</sup>	-	22. <sup>50</sup>	45. <sup>00</sup>
Year Ending October 31, 2016	-	22. <sup>50</sup>	-		
Year Ending October 31, 2016 (Prospect)				22. <sup>50</sup>	45. <sup>00</sup>

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

### 3. Forecast for Earnings for the Year Ending October 31, 2016 (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	41,800	6.2	1,320	-4.9	1,330	-21.9

	Net Income Attributable to Owners of the Parent		Net Income per Share
	(Millions of Yen)	(Percent)	Yen
Full Business Year	660	-35.8	66. <sup>14</sup>

(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: Yes

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] of 2. [Matters Concerning Summary Information (Notes)].

(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, 2016: 10,533,200 shares                      At October 31, 2015: 10,533,200 shares

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

At July 31, 2016: 554,667 shares                      At October 31, 2015: 554,667 shares

3) Number of average shares (accumulated quarterly total)

At July 31, 2016: 9,978,533 shares                      At July 31, 2015: 9,978,533 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 year-to-date period, Japan's economy on the whole continued to lack vigor. Although personal consumption rose briskly as the employment and income environments continued to improve, and housing investment and spending on public works projects pushed growth temporarily upward, economic activity was constrained by a downturn in exports and feeble growth in capital investment. Overseas, the future of economic conditions remained opaque, fostered by the lack of strength in the U.S. economic recovery, the delayed recovery of newly developing countries including China, and the problem of Great Britain's withdrawal from the EU.

Given these circumstances, net sales for the Tomoe Engineering Group for the consolidated third quarter slipped 1.9% from the same period last year to 28,373 million yen, despite higher net sales in the Machinery & Equipment Business, as net sales were lower in the Chemical Products Business. With respect to earnings during the period, operating income was 1,091 million yen, 60.3% up from the same period one year earlier, reflecting the significant increase in the Chemical Products Business profit, despite of lower profit in the Machinery & Equipment Business. On the other hand, ordinary income, which was reflected by foreign exchange losses, was 910 million yen, 10.5% down from the same period last year. Furthermore, net income attributable to owners of the parent was 441 million yen, 43.0% down from the same period last year, as the result of booking an asset impairment write-off of consolidated subsidiary noncurrent assets as an extraordinary loss.

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 6,495 million yen, 1.5% up from the same period last year. Although net sales of machinery, components and repair services for North America markets decreased, net sales of machinery, equipment and works, and components and repair services for domestic private sector demand, as well as net sales of machinery, equipment and works for domestic public sector demand remained steady.

From an earnings aspect, because net sales in the high-margin North America markets decreased, and in addition the value of retained inventory was partially reduced, the operating loss was 128 million yen increased by 29 million yen.

(Chemical Products Business)

In the Chemical Products Business, net sales of ceramics products for semiconductor equipment manufacturing in the advanced materials sector, resin raw materials and UV curing resin for inks in the chemical materials sector, and materials for automotive and housing and construction applications in the industrial materials sector, all remained strong. On the other hand, net sales of wire bonding equipment and transport trays for semiconductor manufacturing applications and resin raw materials and products at Tomoe Engineering (Hong Kong) in the electronics materials sector, and resin raw materials for the domestic plastics sector decreased. As a result, consolidated net sales for the year-to-date period were 21,877 million yen, 2.9% down from the same period last year.

With respect to earnings, operating income was driven by the growth in net sales for products in the industrial materials sector and advanced materials sector, which have comparatively high margins, and amounted to 1,219 million yen, 56.3% up from the same period one year earlier.

## (2) Analysis of Financial Condition

Total assets as of the end of the consolidated third quarter under review were 34,087 million yen, down 0.7% or 253 million yen from the end of the previous consolidated fiscal year. This mainly reflected an increase of 838 million yen in cash and deposits, and a decrease of 1,128 million yen in notes and accounts receivable–trade.

Liabilities were 9,285 million yen, up 1.6% or 144 million yen from the end of the previous consolidated fiscal year, mainly because of a decrease of 275 million yen in provision for bonuses, and an increase of 359 million yen in advances received.

Net assets stood at 24,801 million yen, 398 million yen or 1.6% down from the end of the previous consolidated fiscal year. This mainly reflected a decrease of 111 million yen in valuation difference on available-for-sale securities, and a 290 million yen decrease 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 decreased by 0.6 point compared with the end of the previous consolidated fiscal year to 72.8%.

## (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, 2016 that were announced in the “Financial Results for the Fiscal Year Ended October 31, 2015 [Japan GAAP] (Consolidated)” released on December 9, 2015.

## 2. Matters Concerning Summary Information (Notes)

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

There are no pertinent matters to report.

(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 Business Combinations* and related standards)

Beginning from the first quarter consolidated accounting period, the Company has applied the *Accounting Standard for Business Combinations* (Accounting Standards Board of Japan Statement No. 21), the *Accounting Standard for Consolidated Financial Statements* (Accounting Standards Board of Japan Statement No. 22) and the *Accounting Standard for Business Divestitures* (Accounting Standards Board of Japan Statement No. 7), and has changed the presentation of "Net income" and the presentation from "Minority interests" to "Non-controlling interests". To reflect this change in reporting method, the Company has made reclassifications to its quarterly consolidated financial statements and consolidated financial statements for the third quarter of the prior consolidated fiscal year and the prior consolidated fiscal year.

(Application of *Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016*)

In conjunction with amendment of the Corporation Tax Law, the Tomoe Engineering Group will apply the *Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016* (ASBJ Practical Issue Task Force (PITF) No. 32) in the third quarter consolidated accounting period, and has changed its depreciation method for buildings and attached facilities and structures acquired on and after April 1, 2016 from the declining balance depreciation method to the straight-line depreciation method.

The effect of this change on earnings is not material.

(4) Additional information

(Effect of revisions to the corporate tax rate)

The Act for Partial Revision of the Income Tax Act Etc. (Act No. 15 of 2016) and the Act for Partial Revision of the Local Tax Act (Act No. 13 of 2016) was enacted in the Diet session on March 31, 2016, and Japan's corporate tax rate and business tax rate have changed in the consolidated fiscal year beginning on or after April 1, 2016.

In conjunction with this change, the statutory effective tax rate used to calculate deferred tax assets and deferred tax liabilities will be revised from 32.26% applied in the past to 30.86% for temporary differences expected to be eliminated in the consolidated fiscal years that begin on November 1, 2016, and on November 1, 2017, and to 30.62% for temporary differences expected to be eliminated in the consolidated fiscal years that begin from November 1, 2018.

As a result, deferred tax liabilities (the amount after deducting deferred tax assets) were reduced by 50,583,000 yen. In addition, income taxes-deferred were reduced by 46,284,000 yen, valuation difference on available-for-sale securities increased by 4,486,000 yen, deferred losses on hedges increased by 54,000 yen, and adjustment on net defined benefit was reduced by 241,000 yen, all were recorded in the third quarter consolidated year-to-date period.

### 3. Quarterly Consolidated Financial Statement

#### (1) Quarterly Consolidated Balance Sheets (Third Quarter)

(Thousands of Yen)

Assets	End of Previous Year (October. 31, 2015)	End of Third Quarter (July 31, 2016)
<b>Current Assets</b>		
Cash and Deposits	5,295,280	6,134,030
Notes and Accounts Receivable-Trade	14,575,274	13,447,228
Merchandise and Finished Goods	2,883,186	3,397,171
Work in Process	1,428,858	1,332,074
Raw Materials and Supplies	814,139	834,800
Deferred Tax Assets	415,636	353,239
Others	170,571	296,012
Allowance for Doubtful Accounts	-5,309	-7,558
<b>Total Current Assets</b>	<b>25,577,638</b>	<b>25,786,998</b>
<b>Noncurrent Assets</b>		
Property, Plant and Equipment		
Buildings and Structures	4,414,855	4,379,436
Accumulated Depreciation	-1,554,623	-1,630,604
Buildings and Structures, Net	2,860,232	2,748,832
Machinery, Equipment and Vehicles	4,105,001	3,753,779
Accumulated Depreciation	-3,469,389	-3,317,249
Machinery, Equipment and Vehicles, Net	635,612	436,530
Land	1,934,976	1,933,868
Others	1,094,601	1,089,797
Accumulated Depreciation	-1,004,257	-966,764
Others, Net	90,343	123,033
<b>Total Property, Plant and Equipment</b>	<b>5,521,164</b>	<b>5,242,265</b>
Intangible Assets	362,505	296,455
Investments and Other Assets		
Investment Securities	1,189,880	1,038,575
Guarantee Deposits	83,645	96,255
Net Defined Benefit Assets	1,506,899	1,538,590
Others	122,346	112,186
Allowance for Doubtful Accounts	-22,775	-23,851
<b>Total Investments and Other Assets</b>	<b>2,879,996</b>	<b>2,761,757</b>
<b>Total Noncurrent Assets</b>	<b>8,763,665</b>	<b>8,300,477</b>
<b>Total Assets</b>	<b>34,341,304</b>	<b>34,087,476</b>

(Thousands of Yen)

<b>Liabilities and Net Assets</b>	<b>End of Previous Year (October. 31, 2015)</b>	<b>End of Third Quarter (July 31, 2016)</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Notes and Accounts Payable-Trade	5,836,44	5,838,164
Accounts Payable-Others	557,504	594,107
Income Taxes Payable	182,965	151,950
Advances Received	105,602	464,806
Provision for Bonuses	701,392	426,293
Provision for Directors' Bonuses	42,374	26,397
Allowance for Product Warranty	122,478	111,991
Others	269,841	465,729
<b>Total Current Liabilities</b>	7,818,605	8,079,440
<b>Noncurrent Liabilities</b>		
Provision for Directors' Retirement Benefits	5,460	5,460
Net Defined Benefit Liabilities	54,052	51,760
Deferred Tax Liabilities	1,262,702	1,148,886
<b>Total Noncurrent Liabilities</b>	1,322,214	1,206,106
<b>Total Liabilities</b>	9,140,820	9,285,547
<b>Net Assets</b>		
<b>Shareholders' Equity</b>		
Capital Stock	1,061,210	1,061,210
Capital Surplus	1,483,410	1,483,410
Retained Earnings	22,313,936	22,306,810
Treasury Stock	-363,591	-363,591
<b>Total Shareholders' Equity</b>	24,494,965	24,487,839
<b>Accumulated Other Comprehensive Income</b>		
Valuation Difference on Available-for-Sale Securities	330,518	219,385
Deferred Gains or Losses on Hedges	748	-19,995
Foreign Currency Translation Adjustment	415,072	124,931
Total Adjustment on Net Defined Benefit	-40,820	-10,232
<b>Total Accumulated Other Comprehensive Income</b>	705,518	314,089
<b>Total Net Assets</b>	25,200,484	24,801,928
<b>Total Liabilities and Net Assets</b>	34,341,304	34,087,476

(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, 2015	Third Quarter Ended July 31, 2016
<b>Net Sales</b>	28,923,701	28,373,250
<b>Cost of Sales</b>	23,372,833	22,707,208
<b>Gross Profit</b>	5,550,867	5,666,042
<b>Selling, General and Administrative Expenses</b>	4,870,071	4,574,857
<b>Operating Income</b>	680,796	1,091,185
<b>Non-Operating Income</b>		
Interest Income	12,031	5,375
Dividends Income	25,860	23,491
Rent Income	5,224	5,123
Foreign Exchange Gains	288,946	-
Others	23,846	17,964
<b>Total Non-Operating Income</b>	355,909	51,955
<b>Non-Operating Expenses</b>		
Interest Expenses	1,065	1,892
Commission Paid	8,743	8,752
Sales Discount	4,262	4,120
Foreign Exchange Losses	-	213,796
Others	5,672	4,350
<b>Total Non-Operating Expenses</b>	19,744	232,912
<b>Ordinary Income</b>	1,016,962	910,228
<b>Extraordinary Income</b>		
Gain on Sales of Noncurrent Assets	27,420	-
Gain on Sales of Investment Securities	58,703	-
<b>Total Extraordinary Income</b>	86,124	-
<b>Extraordinary Expenses</b>		
Loss on Impairment	-	102,082
<b>Total Extraordinary Expenses</b>	-	102,082
Income before Income Taxes	1,103,086	808,146
Income Taxes-Current	115,631	367,777
Income Taxes-Deferred	211,672	-1,539
<b>Total Income Taxes</b>	327,303	366,237
<b>Net Income</b>	775,782	441,908
<b>Net Income Attributable to Owners of the Parent</b>	775,782	441,908

Quarterly Consolidated Statements of Comprehensive Income (Third Quarter)

(Thousands of Yen)

	Third Quarter Ended July 31, 2015	Third Quarter Ended July 31, 2016
Net Income	775,782	441,908
Other Comprehensive Income		
Valuation Difference on Available-for-sale Securities	78,231	-111,132
Deferred Gains or Losses (-) on Hedges	-741	-20,744
Foreign Currency Translation Adjustment	204,893	-290,140
Adjustment on Net Defined Benefit	-168	30,587
Total Other Comprehensive Income	282,215	-391,429
<b>Comprehensive Income</b>	1,057,997	50,478
(Breakdown)		
Comprehensive Income attributable to Owners of the Parent	1,057,997	50,478

### (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, 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	6,401,112	22,522,588	28,923,701	28,923,701
Internal Net Sales among Segments or Amount Transferred	-	-	-	-
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.

#### Third Quarter Ended July 31, 2016

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	6,495,949	21,877,301	28,373,250	28,373,250
Internal Net Sales among Segments or Amount Transferred	-	-	-	-
Total	6,495,949	21,877,301	28,373,250	28,373,250
Segment Profit or Loss (-)	-128,783	1,219,969	1,091,185	1,091,185

(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  
(Loss on Impairment Concerning Noncurrent Assets)

The Tomoe Engineering Group booked loss on impairment concerning noncurrent assets in the Chemical Products Business. The reported amount of the loss on impairment in the consolidated Third Quarter under review was 102,082,000 yen.

#### 4. Overseas Net Sales (Supplemental Information)

##### 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, Thailand and India
  - (2) Other regions: America and Egypt
3. Overseas net sales are sales of our company and subsidiaries made in countries and regions other than Japan.

##### Third Quarter Ended July 31, 2016

(Thousands of Yen)

	Asia	Other Regions	Total
I. Overseas Net Sales	3,807,537	711,616	4,519,154
II. Consolidated Net Sales	—	—	28,373,250
III. Ratio of Overseas Net Sales to Consolidated Net Sales (%)	13.4	2.5	15.9

(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, Thailand and Vietnam
  - (2) Other regions: America and Egypt
3. Overseas net sales are sales of our company and subsidiaries made in countries and regions other than Japan.