

Financial Results for the First Quarter Ended January 31, 2017 [Japan GAAP] (Consolidated)

Date: March 1, 2017
 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: March 10, 2017
 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 First Quarter Ended January 31, 2017

(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 January 31, 2017	8,487	-4.8	77	-28.6	59	-47.2
Quarter Ended January 31, 2016	8,912	-6.9	109	-62.0	111	-76.8

	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 January 31, 2017	-1	-	-0. ¹⁶	-
Quarter Ended January 31, 2016	29	-92.4	2. ⁹³	-

(Note) Comprehensive income

First Quarter ended January 31, 2017: 240 million yen (—%) First Quarter ended January 31, 2016: -51 million yen (—%)

(2) Financial Condition (Consolidated)

	Total Assets (A) (Millions of Yen)	Net Assets (B) (Millions of Yen)	Net Assets Ratio (B) / (A) (Percent)
Quarter Ended January 31, 2017	33,637	25,191	74.9
Year Ended October 31, 2016	34,792	25,173	72.4

(Reference) Net assets

First Quarter ended January 31, 2017: 25,191 million yen Year Ended October 31, 2016: 25,173 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, 2016	-	22. ⁵⁰	-	22. ⁵⁰	45. ⁰⁰
Year Ending October 31, 2017	-				
Year Ending October 31, 2017 (Prospect)		22. ⁵⁰	-	22. ⁵⁰	45. ⁰⁰

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

3. Forecast for Earnings for the Year Ending October 31, 2017 (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)
2 nd Quarter YTD	20,770	4.6	680	-26.0	680	-13.9
Full Business Year	41,700	6.4	1,790	-9.1	1,780	-0.0

	Net Income Attributable to Owners of the Parent		Net Income per Share
	(Millions of Yen)	(Percent)	Yen
2 nd Quarter YTD	430	-15.0	43. ⁰⁹
Full Business Year	1,180	21.8	118. ²⁵

(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 (3) [Changes in accounting principles, changes in accounting estimates and retrospective restatements] of 2. [Matters Concerning Summary Information (Notes)] on page 4 of attached document.

(4) Number of outstanding shares (Common stock)

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

At January 31, 2017: 10,533,200 shares At October 31, 2016: 10,533,200 shares

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

At January 31, 2017: 554,817 shares At October 31, 2016: 554,667 shares

3) Number of average shares (accumulated quarterly total)

At January 31, 2017: 9,978,525 shares At January 31, 2016: 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 Quarterly 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

Although the recovery in personal consumption remained lackluster, Japan's economy during the first quarter was supported by the ongoing recovery in exports and a pickup in capital investment against the backdrop of improvements in the overseas economy, and is maintaining its gradual recovery trend. On the other hand, circumstances that included protectionist policies in the United States, the confusion roiling European politics, and the deceleration of China's economy hung over other countries as risks, clouding the outlook.

Given these circumstances, net sales for the Tomoe Engineering Group for the consolidated first quarter slipped 4.8% from the same period last year to 8,487 million yen because of decreasing sales in both the Machinery & Equipment Business and the Chemical Product Business. From an earnings aspect, profits were higher in the Chemical Products Business, but operating income was 77 million yen, 28.6% down from the same period last year against the backdrop of lower net sales in the Machinery & Equipment Business, while ordinary income came to 59 million yen, 47.2% down from the same period last year because of an increase in foreign exchange losses. Profit attributable to owners of the parent fell to a net loss of 1 million yen, 30 million yen down from 29 million yen reported in the same period last 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 1,218 million yen, 6.8% down from the same period last year. Although net sales of components and repair services for overseas expanded, and net sales of machinery, components and repair services for domestic private sector demand remained steady, net sales of components and repair services for domestic public sector demand were affected by postponements and contracted, and there were no net sales of abrasive grain slurry recycling equipment to China.

With respect to earnings during the period, income was affected by the decline of net sales in all of Tomoe's businesses, and operating income fell from the operating income of 277 million yen reported in the same period one year ago to a loss of 310 million yen.

(Chemical Products Business)

In the Chemical Products Business, net sales of materials for housing and construction applications in the industrial materials sector and net sales of materials for transport of semiconductor components in the electronics materials sector were robust, and the Shenzhen plastic compounding business exhibited a recovery trend, but net sales of resin raw materials in the domestic plastics sector, UV curing resin and flame retardant in the fine chemicals sector, and ceramics products for semiconductor fabrication equipment in the advanced materials sector, all declined. As a result, consolidated net sales for the first quarter were 7,268 million yen, 4.4% 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, which have comparatively high margins, and amounted to 388 million yen, 0.6% up from the same period one year earlier.

(2) Analysis of Financial Condition

Total assets as of the end of the consolidated first quarter under review were 33,637 million yen, down 3.3% or 1,154 million yen from the end of the previous consolidated fiscal year. This mainly reflected an increase of 1,328 million yen in inventory, and a decrease of 1,527 million yen in notes and accounts receivable-trade, and a decrease of 1,328 million yen in cash and deposits.

Liabilities were 8,445 million yen, up 12.2% or 1,172 million yen from the end of the previous consolidated fiscal year, mainly because of an increase of 221 million yen in advances received, a decrease of 617 million yen in income tax payable, a decrease of 475 million yen in provision for Bonuses, and a decrease of 100 million yen in notes and accounts payable-trade.

Net assets stood at 25,191 million yen, 17 million yen or 0.1% up from the end of the previous consolidated fiscal year. This mainly reflected a decrease by 224 million yen in retained earnings because of a dividend payment of 224 million yen, an increase of 90 million yen in valuation difference on available-for-sale securities, and a 113 million yen increase in the translation adjustments account.

As a result of the above changes, the equity ratio at the end of the consolidated first quarter under review increased by 2.5 point compared with the end of the previous consolidated fiscal year to 74.9%.

(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, 2017 that were announced in the “Financial Results for the Fiscal Year Ended October 31, 2016 [Japan GAAP] (Consolidated)” released on December 7, 2016.

2. Matters Concerning Summary Information (Notes)

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

Beginning from the first quarter consolidated accounting period, the Company has applied the *Implementation Guidance on Recoverability of Deferred Tax Assets* (Accounting Standards Board of Japan Financial Accounting Standards Implementation Guidance No. 26; referred to below as the *Recoverability Implementation Guidance*), and has partially revised the method of accounting treatment concerning the recoverability of deferred tax assets.

In applying the *Recoverability Implementation Guidance*, the Company has added the difference between the amount of deferred tax assets and deferred tax liabilities when it applied the provisions corresponding to paragraph 49 (3) ① through ③ of the *Recoverability Implementation Guidance* at the beginning of the first quarter consolidated accounting period, and the amount of deferred tax assets and deferred tax liabilities at the end of the prior consolidated fiscal year, to retained earnings at the beginning of the first quarter consolidated accounting period, in accordance with the transitional treatment provided in paragraph (4) 49 of the *Recoverability Implementation Guidance*.

The effect of this change on the reported amount at the beginning of the first quarter consolidated accounting period is not material.

3. Quarterly Consolidated Financial Statement

(1) Quarterly Consolidated Balance Sheets (First Quarter)

(Thousands of Yen)

Assets	End of Previous Year (October 31, 2016)	End of First Quarter (January 31, 2017)
Current Assets		
Cash and Deposits	8,056,223	6,727,231
Notes and Accounts Receivable-Trade	11,618,030	10,090,196
Electronically Recorded Monetary Claims	1,702,590	1,929,601
Merchandise and Finished Goods	2,746,735	3,223,218
Work in Process	1,166,982	1,853,851
Raw Materials and Supplies	595,198	760,001
Deferred Tax Assets	500,420	422,765
Others	282,133	176,008
Allowance for Doubtful Accounts	-4,645	-3,318
Total Current Assets	26,663,670	25,179,556
Noncurrent Assets		
Property, Plant and Equipment		
Buildings and Structures	4,316,576	4,401,235
Accumulated Depreciation	-1,592,835	-1,627,860
Buildings and Structures, Net	2,723,740	2,773,374
Machinery, Equipment and Vehicles	3,659,243	3,841,080
Accumulated Depreciation	-3,215,574	-3,328,142
Machinery, Equipment and Vehicles, Net	443,669	512,937
Land	1,931,071	1,932,079
Construction in progress	96,763	4,812
Others	983,261	989,642
Accumulated Depreciation	-919,694	-931,338
Others, Net	63,567	58,304
Total Property, Plant and Equipment	5,258,812	5,281,508
Intangible Assets	304,807	274,292
Investments and Other Assets		
Investment Securities	1,149,211	1,281,692
Guarantee Deposits	89,809	291,761
Net Defined Benefit Assets	1,242,576	1,247,811
Others	110,849	108,370
Allowance for Doubtful Accounts	-27,664	-27,425
Total Investments and Other Assets	2,564,783	2,902,210
Total Noncurrent Assets	8,128,402	8,458,011
Total Assets	34,792,072	33,637,567

(Thousands of Yen)

Liabilities and Net Assets	End of Previous Year (October 31, 2016)	End of First Quarter (January 31, 2017)
Liabilities		
Current Liabilities		
Notes and Accounts Payable-Trade	3,667,658	3,567,566
Electronically Recorded Monetary Debt	1,891,465	1,855,342
Accounts Payable-Others	558,442	558,612
Income Taxes Payable	632,403	15,158
Advances Received	333,999	555,455
Provision for Bonuses	802,914	327,406
Provision for Directors' Bonuses	50,352	12,082
Allowance for Product Warranty	107,349	102,045
Others	424,583	272,156
Total Current Liabilities	8,469,170	7,265,826
Noncurrent Liabilities		
Provision for Directors' Retirement Benefits	5,460	5,460
Net Defined Benefit Liabilities	56,135	54,558
Deferred Tax Liabilities	1,087,402	1,120,097
Total Noncurrent Liabilities	1,148,998	1,180,115
Total Liabilities	9,618,169	8,445,941
Net Assets		
Shareholders' Equity		
Capital Stock	1,061,210	1,061,210
Capital Surplus	1,483,410	1,483,410
Retained Earnings	22,833,826	22,609,352
Treasury Stock	-363,591	-363,876
Total Shareholders' Equity	25,014,855	24,790,096
Accumulated Other Comprehensive Income		
Valuation Difference on Available-for-Sale Securities	299,418	389,754
Deferred Gains or Losses on Hedges	-17,813	-626
Foreign Currency Translation Adjustment	90,213	203,462
Total Adjustment on Net Defined Benefit	-212,770	-191,060
Total Accumulated Other Comprehensive Income	159,048	401,529
Total Net Assets	25,173,903	25,191,625
Total Liabilities and Net Assets	34,792,072	33,637,567

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

Quarterly Consolidated Statements of Income (First Quarter)

(Thousands of Yen)

	First Quarter Ended January 31, 2016	First Quarter Ended January 31, 2017
Net Sales	8,912,467	8,487,151
Cost of Sales	7,280,715	6,811,659
Gross Profit	1,631,752	1,675,491
Selling, General and Administrative Expenses	1,522,623	1,597,538
Operating Income	109,129	77,953
Non-Operating Income		
Interest Income	1,721	271
Dividends Income	9,295	8,096
Rent Income	1,707	1,707
Others	4,020	4,802
Total Non-Operating Income	16,745	14,878
Non-Operating Expenses		
Interest Expenses	51	4,453
Commission Paid	756	756
Sales Discount	1,531	1,465
Foreign Exchange Losses	10,358	26,191
Others	1,232	829
Total Non-Operating Expenses	13,931	33,696
Ordinary Income	111,943	59,135
Income before Income Taxes and Minority Interests	111,943	59,135
Income Taxes-Current	7,325	2,711
Income Taxes-Deferred	75,362	58,052
Total Income Taxes	82,687	60,763
Net Income or Net Loss (-)	29,255	-1,628
Net Income or Net Loss (-) Attributable to Owners of the Parent	29,255	-1,628

Quarterly Consolidated Statements of Comprehensive Income (First Quarter)

(Thousands of Yen)

	First Quarter Ended January 31, 2016	First Quarter Ended January 31, 2017
Net Income	29,255	-1,628
Other Comprehensive Income		
Valuation Difference on Available-for-sale Securities	-58,999	90,335
Deferred Gains or Losses (-) on Hedges	-459	17,187
Foreign Currency Translation Adjustment	-31,082	113,248
Net Defined Benefit	10,276	21,710
Total Other Comprehensive Income	-80,265	242,481
Comprehensive Income	-51,009	240,852
(Breakdown)		
Comprehensive Income Attributable to Owners of the Parent	-51,009	240,852

(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.)

First Quarter Ended January 31, 2016

Information Pertaining to the Amount of Net Sales, Profit or 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	1,307,719	7,604,748	8,912,467	8,912,467
Internal Net Sales among Segments or Amount Transferred	-	-	-	-
Total	1,307,719	7,604,748	8,912,467	8,912,467
Segment Profit or Loss (-)	-277,117	386,246	109,129	109,129

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

First Quarter Ended January 31, 2017

Information Pertaining to the Amount of Net Sales, Profit or 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	1,218,604	7,268,547	8,487,151	8,487,151
Internal Net Sales among Segments or Amount Transferred	-	-	-	-
Total	1,218,604	7,268,547	8,487,151	8,487,151
Segment Profit or Loss (-)	-310,641	388,594	77,953	77,953

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

4. Overseas Net Sales (Supplemental Information)

First Quarter Ended January 31, 2016

(Thousands of Yen)

	Asia	Other Regions	Total
I. Overseas Net Sales	1,311,212	322,515	1,633,728
II. Consolidated Net Sales	-	-	8,912,467
III. Ratio of Overseas Net Sales to Consolidated Net Sales (%)	14.7	3.6	18.3

(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.

First Quarter Ended January 31, 2017

(Thousands of Yen)

	Asia	Other Regions	Total
I. Overseas Net Sales	1,322,838	302,880	1,625,718
II. Consolidated Net Sales	-	-	8,487,151
III. Ratio of Overseas Net Sales to Consolidated Net Sales (%)	15.6	3.6	19.2

(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.