

Financial Results for the Second Quarter Ended April 30, 2017 [Japan GAAP] (Consolidated)

Date: June 2, 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: June 13, 2017
 Date for Dividend Payment: July 4, 2017
 Preparation of Supplementary Explanatory Materials for Quarterly Operating Results: Yes
 Briefing Session for Quarterly Operating Results: Yes (for institutional investors)

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

1. Consolidated Financial Data for the Second Quarter Ended April 30, 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 April 30, 2017	19,599	-1.3	1,067	16.2	1,046	32.6
Quarter Ended April 30, 2016	19,847	-1.2	918	-1.7	789	-32.0

	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 April 30, 2017	668	32.1	66. ⁰⁰	-
Quarter Ended April 30, 2016	505	-45.2	50. ⁰⁰	-

(Note) Comprehensive income

Second Quarter ended April 30, 2017: 924 million yen (245.2%) Second Quarter ended April 30, 2016: 267 million yen (-77.2%)

(2) Financial Condition (Consolidated)

	Total Assets (A) (Millions of Yen)	Net Assets (B) (Millions of Yen)	Net Assets Ratio (B) / (A) (Percent)
Quarter Ended April 30, 2017	35,204	25,875	73.5
Year Ended October 31, 2016	34,792	25,173	72.4

(Reference) Net assets

Second Quarter ended April 30, 2017: 25,875 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	-	22. ⁵⁰	-	22. ⁵⁰	45. ⁰⁰
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)
Full Business Year	40,400	3.1	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
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 the supporting document on page 10, (4) [Notes on Quarterly Consolidated Financial Statements (Changes in accounting principles)] of 2 [Quarterly Consolidated Financial Statements and Notes].

(4) Number of outstanding shares (Common stock)

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

At April 30, 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 April 30, 2017: 554,817 shares At October 31, 2016: 554,667 shares

3) Number of average shares (accumulated quarterly total)

At April 30, 2017: 9,978,455 shares At April 30, 2016: 9,978,533 shares

*The quarterly earnings report is exempt from the quarterly review procedure.

*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 second quarter under review, Japan's economy continued on a gradual recovery trend, owing to a pickup in personal consumption, ongoing growth in exports, steady capital investment, and a shift to positive inventory investment. Overseas economies also remained firm as a whole, in the context of an ongoing gradual expansion of the US economy, the sustained recovery of European markets, and the underlying strength of the Chinese economy.

Given these circumstances, net sales for the Tomoe Engineering Group for the consolidated second quarter slipped 1.3% from the same period last year to 19,599 million yen mainly because of decreasing sales in both the Machinery & Equipment Business and Chemical Products Business. On the other hand, from an earnings aspect, operating income was 1,067 million yen, 16.2% up from the same period last year because of higher profit in both the Machinery & Equipment Business and Chemical Products Business, while ordinary income came to 1,046 million yen, 32.6% up from the same period last year because foreign exchange losses were lower. Profit attributable to owners of the parent was 668 million yen, 32.1% up from the same period last year.

Operating results by segment were as follows.

(Machinery & Equipment Business)

In the Machinery & Equipment Business, net sales of machinery, components and repair services for overseas markets increased, but net sales of machinery, equipment and works, and components and repair services for domestic public sector demand, and net sales of machinery, equipment and works for domestic private sector demand decreased. As a result, net sales for consolidated cumulative second quarter were 4,810 million yen, 3.8% down from the same period last year.

From an earnings aspect, operating income was 258 million yen, 120.2% up from the same period of the prior year, mainly because of increased profit from components and repair services for overseas markets, and improved profitability in sales for domestic public sector demand.

(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 transport trays for semiconductor manufacturing applications 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, net sales for consolidated cumulative second quarter were 14,788 million yen, 0.4% 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 808 million yen, 0.9% up from the same period one year earlier.

(2) Analysis of Financial Condition

[1] Assets, Liabilities, and Net Assets

Total assets as of the end of the consolidated second quarter under review were 35,204 million yen, up 1.2% or 412 million yen from the end of the previous consolidated fiscal year. This mainly reflected a reduction of 716 million yen in notes and accounts receivable-trade, an increase of 506 million yen in merchandise and finished goods, an increase of 373 million yen in electronically recorded monetary claims, and an increase of 203 million yen in guarantee deposit.

Liabilities were 9,329 million yen, down 3.0% or 288 million yen from the end of the previous consolidated fiscal year, mainly because of an increase of 341 million yen in advances received, a decrease of 260 million yen in income tax payable, a decrease of 140 million yen in provision for Bonuses.

Net assets stood at 25,875 million yen, 701 million yen or 2.8% up from the end of the previous consolidated fiscal year. This mainly reflected an increase in retained earnings recorded under quarterly net income attributable to owners of the parent, and an increase in valuation difference on available-for-sale securities.

As a result of the above changes, the equity ratio at the end of the consolidated second quarter under review increased by 1.1 point compared with the end of the previous consolidated fiscal year to 73.5%.

[2] Cash Flow Status

Cash and cash equivalents as of the end of the consolidated second quarter under review decreased by 1,751 million yen to 6,304 million yen from the end of the previous consolidated fiscal year. The status of each consolidated cash flow and their factors during the second quarter are as follows:

(Net Cash Provided by (Used in) Operating Activities)

Net cash provided in operating activities was 430 million yen (decreased in cash flow provided by 1,150 million yen from the same consolidated quarter of the previous year). Income before income taxes was 1,046 million yen, and notes and accounts receivable-trade decreased by 260 million yen, and advances received increased by 327 million yen, inventory increased by 697 million yen, and payment of income taxes was 616 million yen.

(Net Cash Provided by (Used in) Investing Activities)

Net cash used in investing activities was 2,029 million yen (increase in cash flow used by 266 million yen from the same consolidated quarter of the previous year), mainly for the disbursements to time deposits of 1,700 million yen, and payment of guarantee deposits of 200 million yen.

(Net Cash Provided by (Used in) Financing Activities)

Net cash used in financing activities was 224 million yen (the same amount as the consolidated quarter of the previous year) for the payment of cash dividends of 224 million yen.

(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 October 31, 2017 that were announced in the "Notice on changes in earnings forecast" released on April 20, 2017.

2. Quarterly Consolidated Financial Statement and Notes

(1) Quarterly Consolidated Balance Sheets (Second Quarter)

(Thousands of Yen)

Assets	End of Previous Year (October 31, 2016)	End of Second Quarter (April 30, 2017)
Current Assets		
Cash and Deposits	8,056,223	8,004,877
Notes and Accounts Receivable-Trade	11,618,030	10,901,813
Electronically Recorded Monetary Claims	1,702,590	2,075,690
Merchandise and Finished Goods	2,746,735	3,253,587
Work in Process	1,166,982	1,188,623
Raw Materials and Supplies	595,198	758,298
Deferred Tax Assets	500,420	435,105
Others	282,133	155,670
Allowance for Doubtful Accounts	-4,645	-4,703
Total Current Assets	26,663,670	26,768,964
Noncurrent Assets		
Property, Plant and Equipment		
Buildings and Structures	4,316,576	4,379,898
Accumulated Depreciation	-1,592,835	-1,644,262
Buildings and Structures, Net	2,723,740	2,735,635
Machinery, Equipment and Vehicles	3,659,243	3,747,875
Accumulated Depreciation	-3,215,574	-3,273,127
Machinery, Equipment and Vehicles, Net	443,669	474,747
Land	1,931,071	1,930,998
Construction in progress	96,763	—
Others	983,261	1,039,533
Accumulated Depreciation	-919,694	-933,696
Others, Net	63,567	105,836
Total Property, Plant and Equipment	5,258,812	5,247,218
Intangible Assets	304,807	242,490
Investments and Other Assets		
Investment Securities	1,149,211	1,320,113
Guarantee Deposits	89,809	292,852
Net Defined Benefit Assets	1,242,576	1,253,070
Others	110,849	107,780
Allowance for Doubtful Accounts	-27,664	-27,782
Total Investments and Other Assets	2,564,783	2,946,035
Total Noncurrent Assets	8,128,402	8,435,744
Total Assets	34,792,072	35,204,709

(Thousands of Yen)

Liabilities and Net Assets	End of Previous Year (October 31, 2016)	End of Second Quarter (April 30, 2017)
Liabilities		
Current Liabilities		
Notes and Accounts Payable-Trade	3,667,658	3,649,698
Electronically Recorded Monetary Debt	1,891,465	1,826,118
Accounts Payable-Others	558,442	516,518
Income Taxes Payable	632,403	371,780
Advances Received	333,999	675,276
Provision for Bonuses	802,914	662,597
Provision for Directors' Bonuses	50,352	28,848
Allowance for Product Warranty	107,349	122,356
Others	424,583	284,866
Total Current Liabilities	8,469,170	8,138,060
Noncurrent Liabilities		
Provision for Directors' Retirement Benefits	5,460	5,460
Net Defined Benefit Liabilities	56,135	54,760
Deferred Tax Liabilities	1,087,402	1,131,397
Total Noncurrent Liabilities	1,148,998	1,191,617
Total Liabilities	9,618,169	9,329,678
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	23,279,344
Treasury Stock	-363,591	-363,876
Total Shareholders' Equity	25,014,855	25,460,088
Accumulated Other Comprehensive Income		
Valuation Difference on Available-for-Sale Securities	299,418	414,915
Deferred Gains or Losses on Hedges	-17,813	683
Foreign Currency Translation Adjustment	90,213	168,693
Total Adjustment on Net Defined Benefit	-212,770	-169,349
Total Accumulated Other Comprehensive Income	159,048	414,942
Total Net Assets	25,173,903	25,875,031
Total Liabilities and Net Assets	34,792,072	35,204,709

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

Quarterly Consolidated Statements of Income (Second Quarter)

(Thousands of Yen)

	Second Quarter Ended April 30, 2016	Second Quarter Ended April 30, 2017
Net Sales	19,847,846	19,599,063
Cost of Sales	15,863,415	15,286,201
Gross Profit	3,984,431	4,312,862
Selling, General and Administrative Expenses	3,065,857	3,245,634
Operating Income	918,573	1,067,227
Non-Operating Income		
Interest Income	3,263	712
Dividends Income	10,166	8,875
Rent Income	3,415	3,415
Others	11,991	7,369
Total Non-Operating Income	28,837	20,373
Non-Operating Expenses		
Interest Expenses	63	9,033
Commission Paid	7,995	7,487
Sales Discount	2,830	2,967
Foreign Exchange Losses	144,664	16,358
Others	2,536	4,808
Total Non-Operating Expenses	158,090	40,655
Ordinary Income	789,321	1,046,945
Income before Income Taxes and Minority Interests	789,321	1,046,945
Income Taxes-Current	362,699	341,679
Income Taxes-Deferred	-79,188	36,901
Total Income Taxes	283,511	378,581
Net Income or Net Loss (-)	505,809	668,363
Net Income or Net Loss (-) <i>Attributable to Owners of the Parent</i>	505,809	668,363

Quarterly Consolidated Statements of Comprehensive Income (Second Quarter)

(Thousands of Yen)

	Second Quarter Ended April 30, 2016	Second Quarter Ended April 30, 2017
Net Income	505,809	668,363
Other Comprehensive Income		
Valuation Difference on Available-for-sale Securities	-120,053	115,496
Deferred Gains or Losses (-) on Hedges	-11,915	18,496
Foreign Currency Translation Adjustment	-126,119	78,480
Net Defined Benefit	20,062	43,420
Total Other Comprehensive Income	-238,026	255,894
Comprehensive Income	267,783	924,258
(Breakdown)		
Comprehensive Income Attributable to Owners of the Parent	267,783	924,258

(3) Quarterly Consolidated Statements of Cash Flows

(Thousands of Yen)

	Second Quarter Ended April 30, 2016	Second Quarter Ended April 30, 2017
Net Cash Provided by (Used in) Operating Activities		
Income before Income Taxes	789,321	1,046,945
Depreciation and Amortization	199,744	210,754
Increase (Decrease) in Provision for Bonuses	(118,697)	(142,729)
Increase (Decrease) in Provision for Directors' Bonuses	(24,704)	(21,504)
Increase (Decrease) in Allowance for Product Warranty	(3,337)	15,006
Increase (Decrease) in Net Defined Benefit Liability	4,227	(1,867)
Decrease (Increase) in Net Defined Benefit Asset	(20,492)	(10,493)
Increase (Decrease) in Allowance for Doubtful Accounts	3,654	176
Interests and Dividends Income	(13,430)	(9,587)
Interest Expenses	63	9,033
Foreign Exchange Losses (Gains)	157,468	26,749
Decrease (Increase) in Notes and Accounts Receivable-Trade	398,929	260,966
Decrease (Increase) in Inventories	(66,849)	(697,651)
Increase (Decrease) in Notes and Accounts Payable-Trade	67,652	(34,260)
Increase (Decrease) in Accounts Payable-Others	(40,370)	(32,506)
Increase (Decrease) in Advances Received	329,270	327,596
Others, Net	90,585	99,772
Sub Total	1,753,037	1,046,400
Interests and Dividends Income Received	12,772	9,486
Interest Expenses Paid	(71)	(9,040)
Income Taxes Returned (Paid)	(185,050)	(616,439)
Net Cash Provided by (Used in) Operating Activities	1,580,688	430,406

(Thousands of Yen)

	Second Quarter Ended April 30, 2016	Second Quarter Ended April 30, 2017
Net Cash Provided by (Used in) Investment Activities		
Disbursement to Time Deposits	(1,700,000)	(1,700,000)
Purchase of Property, Plant and Equipment	(23,758)	(119,629)
Proceeds from Sales of Property, Plant and Equipment	-	900
Purchase of Intangible Fixed Assets	(20,597)	-
Purchase of Investment Securities	(8,569)	(8,745)
Payments of Loans Receivable	(510)	(660)
Collection of Loans Receivable	2,567	750
Guarantee Deposits (Increase)	(11,894)	(200,524)
Others, Net	(323)	(1,754)
Net Cash Provided by (Used in) Investment Activities	1,763,086	(2,029,663)
Net Cash Provided by (Used in) Financing Activities		
Purchase of Treasury Stock	-	(285)
Cash Dividends Paid	(224,516)	(224,516)
Net Cash Provided by (Used in) Financing Activities	(224,516)	(224,802)
Cash and Cash Equivalents		
Effect of Exchange Rate Change on Cash and Cash Equivalents	(124,078)	72,714
Net Increase (Decrease) in Cash and Cash Equivalents	(530,993)	(1,751,345)
Cash and Cash Equivalents at Beginning of Period	5,295,280	8,056,223
Cash and Cash Equivalents at End of This Quarter	4,764,286	6,304,877

(4) 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.

(Changes in accounting principles)

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.

(Segment Information, etc.)

Second Quarter Ended April 30, 2016

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	5,002,381	14,845,465	19,847,846	19,847,846
Internal Net Sales among Segments or Amount Transferred	-	-	-	-
Total	5,002,381	14,845,465	19,847,846	19,847,846
Segment Profit	117,492	801,081	918,573	918,573

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

Second Quarter Ended April 30, 2017

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	4,810,117	14,788,946	19,599,063	19,599,063
Internal Net Sales among Segments or Amount Transferred	-	-	-	-
Total	4,810,117	14,788,946	19,599,063	19,599,063
Segment Profit	258,686	808,541	1,067,227	1,067,227

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

3. Overseas Net Sales (Supplemental Information)

Second Quarter Ended April 30, 2016 (Thousands of Yen)

	Asia	Other Regions	Total
I. Overseas Net Sales	2,478,070	545,387	3,023,458
II. Consolidated Net Sales	-	-	19,847,846
III. Ratio of Overseas Net Sales to Consolidated Net Sales (%)	12.5	2.7	15.2

(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, 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.

Second Quarter Ended April 30, 2017 (Thousands of Yen)

	Asia	Other Regions	Total
I. Overseas Net Sales	2,851,616	662,416	3,514,033
II. Consolidated Net Sales	-	-	19,599,063
III. Ratio of Overseas Net Sales to Consolidated Net Sales (%)	14.5	3.4	17.9

(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.