

Financial Results for the Second Quarter Ended April 30, 2018 [Japan GAAP] (Consolidated)

Date: June 1, 2018
 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 11, 2018
 Date for Dividend Payment: July 4, 2018
 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, 2018

(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, 2018	20,923	6.8	1,319	23.6	1,346	28.6
Quarter Ended April 30, 2017	19,599	-1.3	1,067	16.2	1,046	32.6

	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, 2018	889	33.1	89. ¹⁴	-
Quarter Ended April 30, 2017	668	32.1	66. ⁹⁸	-

(Note) Comprehensive income

Second Quarter ended April 30, 2018: 930 million yen (0.7%) Second Quarter ended April 30, 2017: 924 million yen (245.2%)

(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, 2018	37,663	27,714	73.6
Year Ended October 31, 2017	36,580	27,008	73.8

(Reference) Net assets

Second Quarter ended April 30, 2018: 27,714 million yen Year Ended October 31, 2017: 27,008 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, 2017	-	22. ⁵⁰	-	22. ⁵⁰	45. ⁰⁰
Year Ending October 31, 2018	-	22. ⁵⁰	-	22. ⁵⁰	45. ⁰⁰
Year Ending October 31, 2018 (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, 2018 (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	43,000	4.6	2,190	-0.4	2,200	-0.9

	Net Income Attributable to Owners of the Parent		Net Income per Share
	(Millions of Yen)	(Percent)	Yen
Full Business Year	1,490	-0.9	149. ³²

(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: None

2) Other changes than the above 1): None

3) Change in accounting estimates: None

4) Retrospective restatements: None

(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, 2018: 10,533,200 shares At October 31, 2017: 10,533,200 shares

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

At April 30, 2018: 554,817 shares At October 31, 2017: 554,817 shares

3) Number of average shares (accumulated quarterly total)

At April 30, 2018: 9,978,383 shares At April 30, 2017: 9,978,455 shares

*The quarterly earnings report is exempt from the quarterly review by certified public accountant or audit firm.

*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.

Table of Contents (Supporting Data)

1. Qualitative Information on Quarterly Consolidated Operating Results.....	2
(1) Analysis of Operating Results.....	2
(2) Analysis of Financial Condition.....	3
(3) Analysis of Future Forecast on Quarterly Consolidated Earnings Forecast.....	3
2. Quarterly Consolidated Financial Statement and Notes.....	4
(1) Quarterly Consolidated Balance Sheet.	4
(2) Quarterly Consolidated Statements of Income & Quarterly Consolidated Statements of Comprehensive Income.....	6
Quarterly Consolidated Statements of Income.....	6
Quarterly Consolidated Statements of Comprehensive Income.....	7
(3) Quarterly Consolidated Statements of Cash Flows.....	8
(4) Notes on Quarterly Consolidated Financial Statements.....	10
(Note for premise of going concern).....	10
(Notes for significant changes in shareholder's equity).....	10
(Segment information)	10

1. Qualitative Information on Quarterly Consolidated Operating Results

(1) Analysis of Operating Results

During the consolidated second quarter under review, Japan's economy initially grew steadily, and yet eventually was on a decelerating trend driven by a slump in the growth of exports and cutbacks in personal consumption and capital investment. Overseas economies remained firm as a whole, in the context of an ongoing expansion of the US economy, the gradual recovery of European economies, and the underlying strength of the Asian economies like China. However, it will be necessary to monitor factors such as the stability of newly developing countries' currencies, the price of crude oil, and the spat between the U.S. and China over trade.

Given these circumstances, net sales for the Tomoe Engineering Group for the consolidated second quarter increased 6.8% from the same period last year to 20,923 million yen because of increasing sales in both the Machinery & Equipment Business and Chemical Products Business. From an earnings aspect, operating income was 1,319 million yen, 23.6% up from the same period last year because of higher income in both Businesses, while ordinary income came to 1,346 million yen, 28.6% up from the same period last year because of appropriation of foreign exchange gains. Net income attributable to owners of the parent was shifted to 889 million yen, 33.1% 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 components and repair services for domestic public sector demand, net sales of machinery, equipment and works for domestic private sector demand, and net sales of equipment, works, components and repair services for overseas remained steady. As a result, net sales for consolidated second quarter year-to-date period were 5,223 million yen, 8.6% up from the same period last year.

With respect to earnings, operating income was 355 million yen, 37.6% up from the same period of the prior year, mainly because of improved profitability in sales of machinery, and profit-increasing effects in sales of equipment, works, components and repair services for domestic public sector demand.

(Chemical Products Business)

In the Chemical Products Business, net sales of materials for motor vehicles, housing and construction applications in the industrial materials sector, materials for semiconductor fabrication equipment in the advanced materials sector, transport materials for semiconductor manufacturing applications in the electronics materials sector, and net sales of resin based on Hong Kong and the Shenzhen plastic compounding business were robust.

As a result, net sales for consolidated second quarter year-to-date period were 15,700 million yen, 6.2% up 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, the electronics materials sector and the advanced materials sector, and amounted to 963 million yen, 19.2% 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 37,663 million yen, up 3.0% or 1,082 million yen from the end of the previous consolidated fiscal year. This mainly reflected a reduction of 932 million yen in notes and accounts receivable-trade, an increase of 1,323 million yen in electronically recorded monetary claims, and an increase of 470 million yen in merchandise and finished goods.

Liabilities were 9,948 million yen, up 3.9% or 376 million yen from the end of the previous consolidated fiscal year, mainly because of a decrease of 238 million yen in provision for Bonuses, an increase of 443 million yen in electronically recorded monetary debt, and an increase of 162 million yen in advances received.

Net assets stood at 27,714 million yen, 705 million yen or 2.6% 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.

As a result of the above changes, the equity ratio at the end of the consolidated second quarter under review decreased by 0.2 point compared with the end of the previous consolidated fiscal year to 73.6%.

[2] Cash Flow Status

Cash and cash equivalents as of the end of the consolidated second quarter under review decreased by 2,104 million yen to 5,788 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 294 million yen (decreased in cash flow provided by 135 million yen from the same consolidated quarter of the previous year). Income before income taxes was 1,346 million yen, and notes and accounts payable-trade increased by 339 million yen, advances received increased by 163 million yen, inventory increased by 852 million yen, accounts receivable-trade increased by 417 million yen, and payment of income taxes was 392 million yen.

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

Net cash used in investing activities was 2,125 million yen (increase in cash flow used by 96 million yen from the same consolidated quarter of the previous year), mainly for the disbursements to time deposits of 2,000 million yen, and purchase of property, plant and equipment of 95 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, 2018 that were announced in the "Notice on changes in earnings forecast" released on May 29, 2018.

2. Quarterly Consolidated Financial Statement and Notes

(1) Quarterly Consolidated Balance Sheets (Second Quarter)

(Thousands of Yen)

Assets	End of Previous Year (October 31, 2017)	End of Second Quarter (April 30, 2018)
Current Assets		
Cash and Deposits	7,893,336	7,788,551
Notes and Accounts Receivable-Trade	12,423,898	11,491,173
Electronically Recorded Monetary Claims	1,823,085	3,146,343
Merchandise and Finished Goods	3,045,330	3,516,257
Work in Process	1,121,215	1,266,900
Raw Materials and Supplies	626,777	825,957
Deferred Tax Assets	551,335	499,069
Others	169,602	225,293
Allowance for Doubtful Accounts	-5,793	-3,279
Total Current Assets	27,648,788	28,756,266
Noncurrent Assets		
Property, Plant and Equipment		
Buildings and Structures	4,447,596	4,446,846
Accumulated Depreciation	-1,714,451	-1,765,933
Buildings and Structures, Net	2,733,144	2,680,912
Machinery, Equipment and Vehicles	3,753,847	3,740,852
Accumulated Depreciation	-3,339,171	-3,322,778
Machinery, Equipment and Vehicles, Net	414,676	418,073
Land	1,931,034	1,930,610
Construction in progress	—	14,740
Others	999,146	973,544
Accumulated Depreciation	-914,964	-892,188
Others, Net	84,181	81,355
Total Property, Plant and Equipment	5,163,038	5,125,692
Intangible Assets	186,343	148,191
Investments and Other Assets		
Investment Securities	1,520,735	1,560,981
Guarantee Deposits	293,537	293,951
Net Defined Benefit Assets	1,693,578	1,706,592
Others	101,325	94,992
Allowance for Doubtful Accounts	-26,386	-23,425
Total Investments and Other Assets	3,582,791	3,633,091
Total Noncurrent Assets	8,932,172	8,906,976
Total Assets	36,580,961	37,663,242

(Thousands of Yen)

Liabilities and Net Assets	End of Previous Year (October. 31, 2017)	End of Second Quarter (April 30, 2018)
Liabilities		
Current Liabilities		
Notes and Accounts Payable-Trade	4,090,419	3,945,074
Electronically Recorded Monetary Debt	1,665,615	2,109,302
Accounts Payable-Others	520,046	562,923
Income Taxes Payable	437,430	455,852
Advances Received	57,481	220,171
Provision for Bonuses	982,841	744,778
Provision for Directors' Bonuses	64,678	30,420
Allowance for Product Warranty	185,258	164,152
Others	189,552	328,522
Total Current Liabilities	8,193,325	8,561,198
Noncurrent Liabilities		
Provision for Directors' Retirement Benefits	5,460	5,460
Net Defined Benefit Liabilities	57,498	59,406
Deferred Tax Liabilities	1,315,959	1,322,551
Total Noncurrent Liabilities	1,378,918	1,387,417
Total Liabilities	9,572,243	9,948,615
Net Assets		
Shareholders' Equity		
Capital Stock	1,061,210	1,061,210
Capital Surplus	1,483,410	1,483,410
Retained Earnings	23,889,646	24,554,599
Treasury Stock	-363,876	-363,876
Total Shareholders' Equity	26,070,389	26,735,343
Accumulated Other Comprehensive Income		
Valuation Difference on Available-for-Sale Securities	551,039	571,681
Deferred Gains or Losses on Hedges	2,508	3,292
Foreign Currency Translation Adjustment	214,564	199,973
Total Adjustment on Net Defined Benefit	170,216	204,337
Total Accumulated Other Comprehensive Income	938,328	979,283
Total Net Assets	27,008,718	27,714,627
Total Liabilities and Net Assets	36,580,961	37,663,242

(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, 2017	Second Quarter Ended April 30, 2018
Net Sales	19,599,063	20,923,688
Cost of Sales	15,286,201	16,246,088
Gross Profit	4,312,862	4,677,600
Selling, General and Administrative Expenses	3,245,634	3,358,185
Operating Income	1,067,227	1,319,414
Non-Operating Income		
Interest Income	712	958
Dividends Income	8,875	11,307
Rent Income	3,415	3,440
Foreign Exchange Gain	—	18,794
Others	7,369	18,506
Total Non-Operating Income	20,373	53,009
Non-Operating Expenses		
Interest Expenses	9,033	13,497
Commission Paid	7,487	7,487
Sales Discount	2,967	2,854
Foreign Exchange Losses	16,358	—
Others	4,808	2,326
Total Non-Operating Expenses	40,655	26,166
Ordinary Income	1,046,945	1,346,257
Income before Income Taxes and Minority Interests	1,046,945	1,346,257
Income Taxes-Current	341,679	422,926
Income Taxes-Deferred	36,901	33,864
Total Income Taxes	378,581	456,790
Net Income or Net Loss (-)	668,363	889,467
Net Income or Net Loss (-) <i>Attributable to Owners of the Parent</i>	668,363	889,467

Quarterly Consolidated Statements of Comprehensive Income (Second Quarter)

(Thousands of Yen)

	Second Quarter Ended April 30, 2017	Second Quarter Ended April 30, 2018
Net Income	668,363	889,467
Other Comprehensive Income		
Valuation Difference on Available-for-sale Securities	115,496	20,642
Deferred Gains or Losses (-) on Hedges	18,496	784
Foreign Currency Translation Adjustment	78,480	-14,591
Net Defined Benefit	43,420	34,120
Total Other Comprehensive Income	255,894	40,955
Comprehensive Income	924,258	930,422
(Breakdown)		
Comprehensive Income Attributable to Owners of the Parent	924,258	930,422

(3) Quarterly Consolidated Statements of Cash Flows

(Thousands of Yen)

	Second Quarter Ended April 30, 2017	Second Quarter Ended April 30, 2018
Net Cash Provided by (Used in) Operating Activities		
Income before Income Taxes	1,046,945	1,346,257
Depreciation and Amortization	210,754	193,508
Increase (Decrease) in Provision for Bonuses	(142,729)	(237,479)
Increase (Decrease) in Provision for Directors' Bonuses	(21,504)	(34,258)
Increase (Decrease) in Allowance for Product Warranty	15,006	(21,106)
Increase (Decrease) in Net Defined Benefit Liability	(1,867)	1,907
Decrease (Increase) in Net Defined Benefit Asset	(10,493)	2,045
Increase (Decrease) in Allowance for Doubtful Accounts	176	(5,464)
Interests and Dividends Income	(9,587)	(12,266)
Interest Expenses	9,033	13,497
Foreign Exchange Losses (Gains)	26,749	57,787
Decrease (Increase) in Notes and Accounts Receivable-Trade	260,966	(417,848)
Decrease (Increase) in Inventories	(697,651)	(852,828)
Increase (Decrease) in Notes and Accounts Payable-Trade	(34,260)	339,322
Increase (Decrease) in Accounts Payable-Others	(32,506)	38,760
Increase (Decrease) in Advances Received	327,596	163,205
Others, Net	99,772	112,953
Sub Total	1,046,400	687,993
Interests and Dividends Income Received	9,486	12,080
Interest Expenses Paid	(9,040)	(13,504)
Income Taxes Returned (Paid)	(616,439)	(392,121)
Net Cash Provided by (Used in) Operating Activities	430,406	294,446

(Thousands of Yen)

	Second Quarter Ended April 30, 2017	Second Quarter Ended April 30, 2018
Net Cash Provided by (Used in) Investment Activities		
Disbursement to Time Deposits	(1,700,000)	(2,000,000)
Purchase of Property, Plant and Equipment	(119,629)	(95,417)
Proceeds from Sales of Property, Plant and Equipment	900	-
Purchase of Intangible Fixed Assets	-	(19,493)
Purchase of Investment Securities	(8,745)	(10,018)
Payments of Loans Receivable	(660)	(1,390)
Collection of Loans Receivable	750	2,110
Guarantee Deposits (Increase)	(200,524)	(2,149)
Others, Net	(1,754)	542
Net Cash Provided by (Used in) Investment Activities	(2,029,663)	(2,125,817)
Net Cash Provided by (Used in) Financing Activities		
Purchase of Treasury Stock	(285)	-
Cash Dividends Paid	(224,516)	(224,513)
Net Cash Provided by (Used in) Financing Activities	(224,802)	(224,513)
Cash and Cash Equivalents		
Effect of Exchange Rate Change on Cash and Cash Equivalents	72,714	(48,900)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,751,345)	(2,104,785)
Cash and Cash Equivalents at Beginning of Period	8,056,223	7,893,336
Cash and Cash Equivalents at End of This Quarter	6,304,877	5,788,551

(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.

(Segment Information, etc.)

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.

Second Quarter Ended April 30, 2018

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	5,223,166	15,700,521	20,923,688	20,923,688
Internal Net Sales among Segments or Amount Transferred	-	-	-	-
Total	5,223,166	15,700,521	20,923,688	20,923,688
Segment Profit	355,924	963,489	1,319,414	1,319,414

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