

FY 2017 FIRST QUARTER CONSOLIDATED FINANCIAL RESULTS

(April 1, 2017 to June 30, 2017)

1. Company Name : SANKEN ELECTRIC CO., LTD.
 2. Code NO : 6707
 3. Headquarters : 3-6-3 Kitano, Niiza-shi, Saitama 352-8666, Japan
 4. URL : <http://www.sanken-ele.co.jp/>
 5. Contact : Finance and Investor Relations Division
 Tel. 81-48-487-6121

1. FINANCIAL RESULTS FOR THE THREE MONTHS ENDED JUNE 30, 2017

(1) Consolidated Results of Operations

(Millions of yen)

	Net sales (percentage change from the previous year)	Operating profit (percentage change from the previous year)	Ordinary profit (percentage change from the previous year)	Profit attributable to owners of parent (percentage change from the previous year)
Three months ended Jun.30,2017	41,452 (12.3%)	2,036 (538.2%)	1,514 (-)	547 (-)
Three months ended Jun.30,2016	36,899 (1.9%)	319 (61.0%)	-594 (-)	-1,182 (-)

Note: Comprehensive income: 897 million yen (-%) for three months ended June 30, 2017 / -5,672 million yen (-%) for three months ended June 30, 2016

	Net income per share (yen)	Diluted net income per share (yen)
Three months ended Jun.30,2017	4.52	-
Three months ended Jun.30,2016	-9.76	-

(2) Consolidated Financial Position

(Millions of yen)

	Total assets	Net assets	Shareholders' equity ratio
As of June 30, 2017	186,211	55,205	29.5%
As of March 31, 2017	182,700	54,736	29.8%

Reference: Shareholders' equity: 54,861 million yen as of June 30, 2017 / 54,401 million yen as of March 31, 2017

2. DIVIDEND INFORMATION

	Dividend per share				
	First quarter	Second quarter	Third quarter	Fiscal-year-end	Annual
Fiscal year 2016	-	0.00yen	-	3.50yen	3.50yen
Fiscal year 2017	-				
Fiscal year 2017(forecast)		3.00yen	-	3.00yen	6.00yen

Note: Revision to recently disclosed dividend forecast: No

3. FISCAL YEAR 2017 CONSOLIDATED FINANCIAL FORECAST (April 1, 2017 to March 31, 2018)

(Millions of Yen)

	Net sales (percentage change from the previous year)	Operating profit (percentage change from the previous year)	Ordinary profit (percentage change from the previous year)	Profit attributable to owners of parent (percentage change from the previous year)	Net income per share
Second quarter (cumulative)	78,500 (3.2%)	2,700 (24.9%)	2,100 (47.3%)	200 -	1.65yen
Full Year	159,000 (0.1%)	7,300 (23.1%)	6,000 (19.4%)	2,500 (43.8%)	20.63yen

Note: Revision to recently disclosed financial forecast: No

4. OTHER

- (1) Changes in significant subsidiaries during the three months ended June 30, 2017 (changes in particular subsidiaries accompanying the change in scope of consolidation): No
- (2) Application of particular accounting method for quarterly consolidated financial statements: Yes
- (3) Changes in accounting policies, changes in accounting estimates, restatements
- Changes in accounting policies due to the amendment of accounting standards, etc. : No
 - Changes in accounting policies due to reasons other than above : No
 - Changes in accounting estimates : No
 - Restatements : No

(4) Number of shares outstanding (common share)

- Number of shares outstanding at the end of the period (including treasury stock)
- Number of treasury stocks at the end of the period
- Average number of shares outstanding during three months ended June 30

Jun./2017:	125,490,302	Mar./2017:	125,490,302
Jun./2017:	4,296,506	Mar./2017:	4,293,460
Apr./2017-Jun./2017	121,195,754	Apr./2016-Jun./2016	121,214,409

* This quarterly financial report is not subject to quarterly reviews.

* The above description about future matters including financial forecast is based upon information available as of the present time and assumptions we considered valid, and we do not promise that these forecasts will be accomplished. Due to various factors, our actual performance could greatly differ from the forecast. For assumptions and precautions to use the forecasts, refer to following "DESCRIPTION OF CONSOLIDATED FINANCIAL FORECAST, etc".

1. QUALITATIVE INFORMATION ABOUT CONSOLIDATED BUSINESS RESULTS FOR THE THREE MONTHS ENDED JUNE 30, 2017

(1) DESCRIPTION OF CONSOLIDATED OPERATING RESULTS

During the current first quarter consolidated fiscal period, the US economy and the European economy continued to recover thanks to expanded personal consumption, while the Chinese economy showed signs of recovery due to the effects of government policies. The Japanese economy remained on a moderate recovery track mainly due to improvement of corporate earnings and steady capital investment. Under these circumstances, the Company maintained a basic policy for realizing growth by stressing activities to “Focus on growing markets” and “Enhance financial performance.” Under the policy, we strove to expand sales of new products in the key strategic markets related to the environment, energy saving, and green energy, while focusing on measures to reduce fixed expenses. In the first quarter consolidated fiscal period, sales of products for white goods and automotive products in the semiconductor devices segment remained favorable. As a result, net sales were ¥41,452 million, an increase of ¥4,553 million (12.3%) as compared to the same period in the previous year. For income, operating profit was ¥2,036 million, an increase of ¥1,717 million (538.2%) year on year resulting from increased net sales. Ordinary profit was ¥1,514 million (ordinary loss of ¥594 million in the same period in the previous year) and profit attributable to owners of parent was ¥547 million (loss attributable to owners of parent of ¥1,182 million in the same period in the previous year), and both increased year on year.

Overview of business by segment is as follows. From the first quarter consolidated fiscal period, the former power module business and power systems business are integrated into the power systems business, and reportable segments are changed into two segments, namely, the semiconductor devices segment and power systems segment. The following descriptions of financial performance for each reportable segment in comparison to the same period in the previous year are stated according to the segment after the change.

In the semiconductor devices segment, sales of products for white goods such as air conditioners, washing machines and refrigerators expanded, and sales of automotive products also remained favorable with the progress of electrification. As a result, consolidated net sales from this segment were ¥35,192 million, an increase of ¥4,271 million (13.8%) as compared to the same period in the previous year. For income, consolidated operating profit was ¥3,087 million, an increase of ¥1,379 million (80.8%) as compared to the same period in the previous year, resulting from increased net sales and the exchange rate influenced by a weaker yen.

For the power systems segment, sales of products for the AV and OA markets, including unprofitable adapters for TVs, decreased due to sales controls while sales of products for the telecommunication market showed a sign of recovery. As a result, consolidated net sales from this segment were ¥6,259 million, an increase of ¥281 million (4.7%) compared to the same period in the previous year. For income, we recorded consolidated operating loss of ¥305 million (consolidated operating loss of ¥640 million in the same period in the previous year) due to decreased sales of unprofitable products. Consolidated operating loss was reduced to half.

(2) DESCRIPTION OF CONSOLIDATED FINANCIAL POSITION

Assets as of the end of the three months ended June 30, 2017 were ¥186,211 million, an increase of ¥3,511 million from the end of the previous consolidated fiscal year. This was mainly due to an increase in cash and deposits of ¥1,204 million, inventories of ¥1,565 million and property, plant and equipment ¥690 million.

Liabilities were ¥131,005 million, an increase of ¥3,042 million from the end of the previous consolidated fiscal year. This was mainly due to an increase in notes and accounts payable-trade of ¥1,315 million and commercial papers of ¥1,500 million.

Net Assets were ¥55,205 million, an increase of ¥468 million from the end of the previous consolidated fiscal year. This was mainly due to an increase in foreign currency translation adjustment of ¥183 million and retained earnings of ¥123 million.

(3) DESCRIPTION OF CONSOLIDATED FINANCIAL FORECAST, etc.

The future global economy is expected to remain on a gradual recovery trend. However, there is growing uncertainty due mainly to a concern about trends in the US policy and the effects of the Brexit issue in Europe, as well as a sense of overheating in the Chinese financial market. The Japanese economy is expected to recover mildly, but uncertainty in overseas economies may adversely affect corporate earnings. Under these circumstances, the Company will expand sales by launching new products in strategically-focused markets, such as global markets for automotive products, white goods, and industrial machinery, and the emerging markets related to the environment and energy saving. The Company will also make efforts to strengthen financial conditions by ensuring profits through cost reduction activities and curtailing inventories and interest-bearing debt. Through these initiatives, the Company will move ahead to achieve the plan for the fiscal year ending March 31, 2018.

As disclosed on July 18, 2017, the Company plans to take a series of actions to accomplish restructuring of the Group, and thereby we will record extraordinary losses resulting from the restructuring in the current consolidated fiscal year. Amendments to the financial forecast are currently under close scrutiny and will be disclosed as soon as the details become clear.

2. QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

(1) QUARTERLY CONSOLIDATED BALANCE SHEETS

Millions of yen

	March 31 2017	June 30 2017
ASSETS		
Current assets		
Cash and deposits	22,548	23,752
Notes and accounts receivable - trade	33,867	33,060
Merchandise and finished goods	18,227	18,087
Work in process	24,019	25,521
Raw materials and supplies	8,918	9,122
Deferred tax assets	2,080	2,180
Other	3,051	3,670
Allowance for doubtful accounts	(299)	(307)
Total current assets	<u>112,415</u>	<u>115,089</u>
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	21,643	21,366
Machinery, equipment and vehicles, net	27,341	28,173
Tools, furniture and fixtures, net	1,024	1,134
Land	5,004	5,011
Leased assets, net	447	365
Construction in progress	4,743	4,843
Total property, plant and equipment	<u>60,204</u>	<u>60,894</u>
Intangible assets		
Software	3,298	3,193
Other	2,057	2,141
Total intangible assets	<u>5,355</u>	<u>5,335</u>
Investments and other assets		
Investment securities	1,457	1,527
Deferred tax assets	204	199
Net defined benefit asset	—	281
Other	3,304	3,125
Allowance for doubtful accounts	(242)	(242)
Total investments and other assets	<u>4,725</u>	<u>4,891</u>
Total non-current assets	<u>70,284</u>	<u>71,121</u>
Total assets	<u><u>182,700</u></u>	<u><u>186,211</u></u>

	March 31 2017	June 30 2017
LIABILITIES AND NET ASSETS		
Liabilities		
Current liabilities		
Notes and accounts payable - trade	18,391	19,707
Short-term loans payable	23,151	23,276
Current portion of long-term loans payable	7,500	7,500
Commercial papers	15,000	16,500
Lease obligations	220	157
Income taxes payable	492	941
Accrued expenses	9,441	9,795
Other	1,770	1,450
Total current liabilities	<u>75,967</u>	<u>79,329</u>
Non-current liabilities		
Bonds payable	40,000	40,000
Long-term loans payable	5,000	5,000
Lease obligations	156	144
Deferred tax liabilities	2,178	2,268
Provision for directors' retirement benefits	25	20
Net defined benefit liability	2,627	2,445
Other	2,009	1,797
Total non-current liabilities	<u>51,995</u>	<u>51,676</u>
Total liabilities	<u>127,963</u>	<u>131,005</u>
Net assets		
Shareholders' equity		
Capital stock	20,896	20,896
Capital surplus	10,301	10,301
Retained earnings	29,176	29,299
Treasury shares	(4,003)	(4,004)
Total shareholders' equity	<u>56,371</u>	<u>56,493</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	425	474
Foreign currency translation adjustment	754	938
Remeasurements of defined benefit plans	(3,150)	(3,044)
Total accumulated other comprehensive income	<u>(1,970)</u>	<u>(1,632)</u>
Non-controlling interests	<u>335</u>	<u>344</u>
Total net assets	<u>54,736</u>	<u>55,205</u>
Total liabilities and net assets	<u><u>182,700</u></u>	<u><u>186,211</u></u>

**(2) QUARTERLY CONSOLIDATED STATEMENTS OF INCOME AND
QUARTERLY CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

Millions of yen

CONSOLIDATED STATEMENTS OF INCOME	Three months ended Jun.30, 2016	Three months ended Jun.30, 2017
Net sales	36,899	41,452
Cost of sales	28,159	30,375
Gross profit	8,739	11,076
Selling, general and administrative expenses	8,420	9,039
Operating profit	319	2,036
Non-operating income		
Interest income	2	8
Dividend income	18	20
Other	80	104
Total non-operating income	101	132
Non-operating expenses		
Interest expenses	203	160
Foreign exchange losses	632	206
Miscellaneous loss	178	288
Total non-operating expenses	1,014	655
Ordinary profit (loss)	(594)	1,514
Extraordinary income		
Gain on sales of non-current assets	0	—
Gain on abolishment of retirement benefit plan	—	69
Total extraordinary income	0	69
Extraordinary losses		
Loss on sales of non-current assets	4	—
Loss on disposal of non-current assets	9	3
Special retirement expenses	—	183
Total extraordinary losses	13	186
Profit (loss) before income taxes	(607)	1,397
Income taxes	595	840
Profit (loss)	(1,203)	556
Profit (loss) attributable to non-controlling interests	(20)	9
Profit (loss) attributable to owners of parent	(1,182)	547

Millions of yen

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	Three months ended Jun.30, 2016	Three months ended Jun.30, 2017
Profit (loss)	(1,203)	556
Other comprehensive income		
Valuation difference on available-for-sale securities	(52)	48
Foreign currency translation adjustment	(4,576)	185
Remeasurements of defined benefit plans, net of tax	159	105
Total other comprehensive income	<u>(4,468)</u>	<u>340</u>
Comprehensive income	<u>(5,672)</u>	<u>897</u>
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(5,613)	885
Comprehensive income attributable to non-controlling interests	(59)	11

(3) NOTES TO THE QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS
[Information about Sales and Operating Income (Loss) by Reporting Segment]

THREE MONTHS ENDED JUNE 30, 2016

Millions of yen

	Reporting Segment		Total	Adjustment	Amount stated in QUARTERLY CONSOLIDATED STATEMENTS OF INCOME
	Semiconductor Devices	Power Systems			
Sales					
(1) Sales for customer	30,921	5,977	36,899	—	36,899
(2) Intersegment Sales or Transfer	170	46	216	(216)	—
Total	31,091	6,023	37,115	(216)	36,899
Income (loss) by segment	1,708	(640)	1,067	(748)	319

THREE MONTHS ENDED JUNE 30, 2017

Millions of yen

	Reporting Segment		Total	Adjustment	Amount stated in QUARTERLY CONSOLIDATED STATEMENTS OF INCOME
	Semiconductor Devices	Power Systems			
Sales					
(1) Sales for customer	35,192	6,259	41,452	—	41,452
(2) Intersegment Sales or Transfer	238	27	265	(265)	—
Total	35,431	6,286	41,717	(265)	41,452
Income (loss) by segment	3,087	(305)	2,782	(745)	2,036

[Significant Subsequent Events]

New issuance of shares through a private placement at a subsidiary and a restructuring in the Group

The Board of Directors of the Company decided at the Board of Directors meeting held on July 18, 2017 that Sanken North America, Inc. ("SKN") shall issue new shares through a private placement which shall be subscribed by One Equity Partners ("OEP") and the Company shall take a series of actions to accomplish restructuring of the Group.

1. Background and rationale

The Group now faces a number of management challenges such as improving non-consolidated financial performance, improving the Company's financial condition and executing growth strategies of SKN which occupies a pivotal position in the consolidated financial performance. In order to address these challenges, and on top of what the Company and the Group have worked on realigning its businesses within the Group, the Company is now improving financial conditions by furthering the business restructuring activities and is strengthening the infrastructure for executing the growth strategy for a next version of the mid-term business plan.

In order to raise funds for the above initiatives, the Company decided to implement a private placement of new shares at SKN subscribed by OEP.

2. Overview of the issuance of new shares through a private placement by a subsidiary

- (1) Number of new shares to be issued: 2,880,000 shares
- (2) Total value of the new shares: US\$291 million
- (3) Subscriber of the new shares: One Equity Partners
- (4) End date of subscription period: August 24, 2017 (US Time)
- (5) Number of the issued and outstanding shares: 10,000,000 shares
- (6) Number of shares which the Company keeps: 6,720,000 shares
- (7) The Company's ownership of SKN's shares: Decreased from 100% to 67.2%

3. Overview of restructuring initiatives

- (1) Withdrawal from the power modules business (excluding products for the automotive, industrial machinery, and telecommunication markets)
 - i) Description of business: Manufacture and sales of switched-mode power supply, etc.
 - ii) Scale of business: Net sales of ¥11,178 million for the fiscal year ended March 31, 2017
 - iii) Time of withdrawal: Ending production on March 31, 2018 (planned)
Ceasing sales activities on September 30, 2018 (planned)
- (2) Sharply decreasing the number of the items produced and substantially shrinking the scale of production at PT Sanken Indonesia, the heretofore primary factory of the power modules business
- (3) Accelerating conversion of product portfolio and withdrawal from unprofitable products, most of which are centering around power supply device sector in the core semiconductor devices business
- (4) Offering a special early separation program
 - i) Name of company offering early separation: Sanken Electric Co., Ltd.
 - ii) Eligibility: Employees aged 45 or above, and has three years or more of service at the time of separation
 - iii) Number of people applicable: 120 people (planned)
 - iv) Offer period: From October 2, 2017 to October 13, 2017 (planned)
 - v) Early separation date: November 30, 2017 (planned)
 - vi) Special benefits: Payment of additional special benefit in addition to the regular severance payment, and support for hiring, provided upon request, by a personnel placement agency

4. Impact on financial performance

Expenses to be accrued in relation to this restructuring are scheduled to be recorded as extraordinary loss in the current consolidated fiscal year. However, the amount has not yet been determined at present because the total expenses may change due to variable and uncertain factors such as the progress of the restructuring and the participation rate of the special early separation program. Accordingly, it is difficult to reasonably estimate the impact on the financial performance at this point.