

# FY 2017 SECOND QUARTER (CUMULATIVE) CONSOLIDATED FINANCIAL RESULTS

(April 1, 2017 to September 30, 2017)

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## 1. FINANCIAL RESULTS FOR THE SIX MONTHS ENDED SEPTEMBER 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)
Six months ended Sep.30,2017	86,000 (13.1%)	5,457 (152.5%)	5,665 (297.5%)	-13,113 ( - )
Six months ended Sep.30,2016	76,055 (-1.6%)	2,161 (-26.4%)	1,425 (-6.6%)	-72 ( - )

Note: Comprehensive income: -12,752 million yen ( - %) for the six months ended Sep.30, 2017 / -5,610 million yen ( - %) for the six months ended Sep.30, 2016

	Net income per share (yen)	Diluted net income per share (yen)
Six months ended Sep.30,2017	-108.20	—
Six months ended Sep.30,2016	-0.60	—

### (2) Consolidated Financial Position

(Millions of yen)

	Total assets	Net assets	Shareholders' equity ratio
As of September 30, 2017	171,991	41,552	24.0%
As of March 31, 2017	182,700	54,736	29.8%

Reference: Shareholders' equity: 41,195 million yen as of Sep.30, 2017 / 54,401 million yen as of Mar.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	—	3.00yen			
Fiscal year 2017 (forecast)			—	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
Full Year	173,000 (9.0%)	10,000 (68.6%)	9,000 (79.0%)	-13,700 —	-113.04yen

Note: Revision to recently disclosed financial forecast: No

#### 4. OTHER

- (1) Changes in significant subsidiaries during the six months ended September 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 according to revision 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 six months ended September 30

Sep./2017:	125,490,302	Mar./2017:	125,490,302
Sep./2017:	4,302,803	Mar./2017:	4,293,460
Apr./2017-Sep./2017	121,193,327	Apr./2016-Sep./2016	121,213,464

\* 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 SIX MONTHS ENDED SEPTEMBER 30, 2017**

## **(1) DESCRIPTION OF CONSOLIDATED OPERATING RESULTS**

During the six months ended September 30, 2017, the US economy and the European economy held steady, and the Chinese economy showed signs of recovery thanks to government policies. The Japanese economy remained on a moderate recovery track mainly due to recovery in capital investment and personal consumption. Under these circumstances, the Company maintained a basic policy for the current fiscal year 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 improve our earnings structure by reducing fixed expenses. Further, as disclosed on July 18, 2017, the Group raised funds for future growth through a private placement of new shares at Sanken North America, Inc., a US subsidiary. In order to improve its non-consolidated financial performance and make better its financial conditions – two pivotal management challenges we have faced – as well as to accelerate the growth of the US business, the Group has worked on restructuring initiatives such as its withdrawal from the power modules business, realignment of its business in the semiconductor devices business, and implementation of a special early separation program. The Group has also started to take measures toward growth across the Group.

In the six months ended September 30, 2017, sales of products for white goods and automotive products in the semiconductor devices segment remained favorable. As a result, net sales were ¥86,000 million, an increase of ¥9,944 million (13.1%) as compared to the same period in the previous year. For income, operating profit was ¥5,457 million, an increase of ¥3,295 million (152.5%) year on year resulting from increased net sales and the exchange rate influenced by a weaker yen compared with the exchange rate set at the beginning of the current fiscal period. Ordinary profit was ¥5,665 million, an increase of ¥4,240 million (297.5%) year on year. However, loss attributable to owners of parent was ¥13,113 million (loss attributable to owners of parent of ¥72 million in the same period in the previous year) due to the recording of extraordinary losses of ¥16,531 million resulting from the restructuring initiatives, including withdrawal from an unprofitable sector.

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 continued to increase, and sales of automotive products also remained favorable with the progress of electrification. As a result, consolidated net sales from this segment were ¥71,705 million, an increase of ¥9,059 million (14.5%) as compared to the same period in the previous year. For income, consolidated operating profit was ¥7,015 million, an increase of ¥2,638 million (60.3%) as compared to the same period in the previous year, resulting from increased net sales.

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 mobile phone base stations in the telecommunication market recovered. As a result, consolidated net sales from this segment were ¥14,294 million, an increase of ¥884 million (6.6%) compared to the same period in the previous year. For income, we recorded consolidated operating loss of ¥60 million (consolidated operating loss of ¥712 million in the same period in the previous year) due to decreased sales of unprofitable products, resulting in improved financial performance.

## **(2) DESCRIPTION OF CONSOLIDATED FINANCIAL POSITION**

### **1) Status of Assets, Liabilities and Net Assets**

Assets as of the end of September 30, 2017 were ¥171,991 million, a decrease of ¥10,708 million from the end of the previous consolidated fiscal year. This was mainly due to a decrease in inventories of ¥12,626 million, cash and deposits of ¥2,887 million, and an increase in other current assets of ¥1,904 million, property, plant and equipment of ¥1,784 million.

Liabilities were ¥130,439 million, an increase of ¥2,475 million from the end of the previous consolidated fiscal year. This was mainly due to an increase in accrued expenses of ¥2,716 million, notes and accounts payable-trade of ¥2,180 million, and a decrease in commercial papers of ¥1,500 million.

Net Assets were ¥41,552 million, a decrease of ¥13,184 million from the end of the previous consolidated fiscal year. This was mainly due to a decrease in retained earnings of ¥13,537 million.

## **2) Status of Cash Flows**

Balance of cash and cash equivalents at the end of the six months ended September 30, 2017 was ¥19,399 million, a decrease of ¥2,837 million as compared to the end of the previous consolidated fiscal year.

Net cash provided by operating activities was ¥6,861 million, a decrease of ¥2,344 million as compared to the same period in the previous fiscal year. This was mainly due to an increase in cash outflow by income taxes paid.

Net cash used in investing activities was ¥6,991 million, an increase of ¥2,070 million as compared to the same period in the previous fiscal year. This was mainly due to an increase in purchase of property, plant and equipment.

Net cash used in financing activities was ¥2,497 million, an increase of ¥700 million as compared to the same period in the previous fiscal year. This was mainly due to redemption of commercial papers.

## **(3) DESCRIPTION OF CONSOLIDATED FINANCIAL FORECAST, etc.**

With regard to the consolidated financial forecast, we have made revisions to the consolidated financial forecast for the full year ending March 31, 2018 disclosed on May 10, 2017 in the FY 2016 CONSOLIDATED FINANCIAL RESULTS, in light of recent market performance, the recording of extraordinary losses resulting from the restructuring initiatives at the closing of the current second quarter, and other factors. For details on the reasons for the revisions, etc., please refer to the “Notice of Extraordinary Losses Incurred and Revision of the Business Results Forecast” disclosed on October 25, 2017.

## 2. QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

### (1) QUARTERLY CONSOLIDATED BALANCE SHEETS

Millions of yen

	March 31 2017	September 30 2017
<b>ASSETS</b>		
Current assets		
Cash and deposits	22,548	<b>19,660</b>
Notes and accounts receivable - trade	33,867	<b>34,528</b>
Merchandise and finished goods	18,227	<b>13,741</b>
Work in process	24,019	<b>22,714</b>
Raw materials and supplies	8,918	<b>2,082</b>
Deferred tax assets	2,080	<b>2,064</b>
Other	3,051	<b>4,955</b>
Allowance for doubtful accounts	(299)	<b>(71)</b>
Total current assets	<u>112,415</u>	<u><b>99,676</b></u>
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	21,643	<b>21,255</b>
Machinery, equipment and vehicles, net	27,341	<b>29,319</b>
Tools, furniture and fixtures, net	1,024	<b>1,248</b>
Land	5,004	<b>4,969</b>
Leased assets, net	447	<b>316</b>
Construction in progress	4,743	<b>4,879</b>
Total property, plant and equipment	<u>60,204</u>	<u><b>61,988</b></u>
Intangible assets		
Software	3,298	<b>3,139</b>
Other	2,057	<b>2,219</b>
Total intangible assets	<u>5,355</u>	<u><b>5,358</b></u>
Investments and other assets		
Investment securities	1,457	<b>1,510</b>
Deferred tax assets	204	<b>189</b>
Net defined benefit asset	—	<b>604</b>
Other	3,304	<b>2,903</b>
Allowance for doubtful accounts	(242)	<b>(242)</b>
Total investments and other assets	<u>4,725</u>	<u><b>4,966</b></u>
Total non-current assets	<u>70,284</u>	<u><b>72,314</b></u>
Total assets	<u><u>182,700</u></u>	<u><u><b>171,991</b></u></u>

	March 31 2017	September 30 2017
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Current liabilities		
Notes and accounts payable - trade	18,391	<b>20,572</b>
Short-term loans payable	23,151	<b>23,286</b>
Current portion of long-term loans payable	7,500	<b>2,500</b>
Commercial papers	15,000	<b>13,500</b>
Lease obligations	220	<b>106</b>
Income taxes payable	492	<b>395</b>
Accrued expenses	9,441	<b>12,157</b>
Other	1,770	<b>1,585</b>
Total current liabilities	<u>75,967</u>	<u><b>74,104</b></u>
Non-current liabilities		
Bonds payable	40,000	<b>40,000</b>
Long-term loans payable	5,000	<b>9,500</b>
Lease obligations	156	<b>134</b>
Deferred tax liabilities	2,178	<b>2,563</b>
Provision for directors' retirement benefits	25	<b>22</b>
Net defined benefit liability	2,627	<b>2,318</b>
Other	2,009	<b>1,795</b>
Total non-current liabilities	<u>51,995</u>	<u><b>56,334</b></u>
Total liabilities	<u>127,963</u>	<u><b>130,439</b></u>
Net assets		
Shareholders' equity		
Capital stock	20,896	<b>20,896</b>
Capital surplus	10,301	<b>10,301</b>
Retained earnings	29,176	<b>15,639</b>
Treasury shares	(4,003)	<b>(4,008)</b>
Total shareholders' equity	<u>56,371</u>	<u><b>42,829</b></u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	425	<b>462</b>
Foreign currency translation adjustment	754	<b>816</b>
Remeasurements of defined benefit plans	(3,150)	<b>(2,912)</b>
Total accumulated other comprehensive income	<u>(1,970)</u>	<u><b>(1,633)</b></u>
Non-controlling interests	<u>335</u>	<u><b>356</b></u>
Total net assets	<u>54,736</u>	<u><b>41,552</b></u>
Total liabilities and net assets	<u><u>182,700</u></u>	<u><u><b>171,991</b></u></u>

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

Millions of yen

<b>QUARTERLY CONSOLIDATED STATEMENTS OF INCOME</b>	Six months ended Sep.30, 2016	Six months ended Sep.30, 2017
Net sales	76,055	<b>86,000</b>
Cost of sales	57,206	<b>62,446</b>
Gross profit	18,848	<b>23,553</b>
Selling, general and administrative expenses	16,687	<b>18,096</b>
Operating profit	2,161	<b>5,457</b>
Non-operating income		
Interest income	8	<b>24</b>
Dividend income	19	<b>20</b>
Foreign exchange gains	—	<b>725</b>
Subsidy income	162	—
Miscellaneous income	209	<b>189</b>
Total non-operating income	398	<b>960</b>
Non-operating expenses		
Interest expenses	369	<b>325</b>
Foreign exchange losses	269	—
Miscellaneous loss	496	<b>426</b>
Total non-operating expenses	1,135	<b>751</b>
Ordinary profit	1,425	<b>5,665</b>
Extraordinary income		
Gain on sales of non-current assets	0	—
Gain on abolishment of retirement benefit plan	—	<b>69</b>
Compensation income	—	<b>586</b>
Total extraordinary income	0	<b>656</b>
Extraordinary losses		
Loss on sales of non-current assets	4	—
Loss on disposal of non-current assets	166	<b>22</b>
Special retirement expenses	—	<b>187</b>
Loss on liquidation of subsidiaries and associates	—	<b>366</b>
Business structure reform cost	—	<b>16,531</b>
Total extraordinary losses	171	<b>17,108</b>
Profit (loss) before income taxes	1,254	<b>(10,786)</b>
Income taxes	1,346	<b>2,312</b>
Loss	(92)	<b>(13,098)</b>
Profit (loss) attributable to non-controlling interests	(19)	<b>14</b>
Loss attributable to owners of parent	(72)	<b>(13,113)</b>

Millions of yen

QUARTERLY CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	Six months ended Sep.30, 2016	<b>Six months ended Sep.30, 2017</b>
Loss	(92)	<b>(13,098)</b>
Other comprehensive income		
Valuation difference on available-for-sale securities	0	<b>37</b>
Foreign currency translation adjustment	(5,984)	<b>71</b>
Remeasurements of defined benefit plans, net of tax	465	<b>237</b>
Total other comprehensive income	<u>(5,518)</u>	<u><b>346</b></u>
Comprehensive income	<u>(5,610)</u>	<u><b>(12,752)</b></u>
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(5,542)	<b>(12,776)</b>
Comprehensive income attributable to non-controlling interests	(68)	<b>23</b>



### (3) QUARTERLY CONSOLIDATED STATEMENTS OF CASH FLOWS

Millions of yen

	Six months ended Sep.30, 2016	Six months ended Sep.30, 2017
Cash flows from operating activities		
Profit before income taxes	1,254	(10,786)
Depreciation	5,645	5,438
Business structure reform cost	—	16,531
Increase (decrease) in allowance for doubtful accounts	2	(227)
Increase (decrease) in net defined benefit liability	(191)	(215)
Decrease (increase) in net defined benefit asset	(489)	(461)
Interest and dividend income	(27)	(45)
Interest expenses	369	325
Decrease (increase) in notes and accounts receivable - trade	508	(477)
Decrease (increase) in inventories	1,561	(1,922)
Increase (decrease) in notes and accounts payable - trade	764	1,998
Other, net	524	(686)
Subtotal	9,920	9,472
Interest and dividend income received	15	45
Interest expenses paid	(408)	(311)
Payments for business structure reform cost	—	(82)
Income taxes paid	(322)	(2,262)
Net cash provided by (used in) operating activities	9,205	6,861
Cash flows from investing activities		
Purchase of property, plant and equipment	(4,310)	(6,777)
Proceeds from sales of property, plant and equipment	17	207
Purchase of intangible assets	(507)	(379)
Payments of loans receivable	(1)	—
Collection of loans receivable	5	1
Other, net	(123)	(43)
Net cash provided by (used in) investing activities	(4,920)	(6,991)
Cash flows from financing activities		
Increase (decrease) in short-term loans payable	(593)	67
Increase (decrease) in commercial papers	(2,000)	(1,500)
Repayments of finance lease obligations	(553)	(136)
Proceeds from long-term loans payable	—	4,500
Repayments of long-term loans payable	—	(5,000)
Proceeds from issuance of bonds	9,950	—
Redemption of bonds	(10,000)	—
Purchase of treasury shares	(1)	(4)
Cash dividends paid	(0)	(423)
Net cash provided by (used in) financing activities	(3,198)	(2,497)
Effect of exchange rate change on cash and cash equivalents	(1,305)	(209)
Net increase (decrease) in cash and cash equivalents	(218)	(2,837)
Cash and cash equivalents at beginning of period	17,646	22,237
Cash and cash equivalents at end of period	17,427	19,399

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

**SIX MONTHS ENDED SEPTEMBER 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	62,645	13,410	76,055	—	76,055
(2) Intersegment Sales or Transfer	382	54	437	(437)	—
Total	63,028	13,464	76,493	(437)	76,055
Income (loss) by segment	4,376	(712)	3,664	(1,503)	2,161

**SIX MONTHS ENDED SEPTEMBER 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	71,705	14,294	86,000	—	86,000
(2) Intersegment Sales or Transfer	461	31	492	(492)	—
Total	72,166	14,326	86,492	(492)	86,000
Income (loss) by segment	7,015	(60)	6,955	(1,498)	5,457

**[Significant Subsequent Events]**

The Company resolved that Sanken North America, Inc. ("SKN"), a consolidated subsidiary, issued stock through a private placement to One Equity Partners ("OEP") at the Board of Directors meeting held on July 18, 2017. Since OEP has obtained authorization and permission under antitrust laws of countries concerned, the conditions for implementing the contract, "Sales and Subscription Agreement" on July 18, 2017, are satisfied and hereby OEP completed funds payment procedure for the capital increase on October 3, 2017.

As a result of this event, total net assets increased by 32,807 million yen compared to the end of the second quarter consolidated accounting period, and according to the proportion of SKN's interest to the Company's net assets, capital surplus of 16,342 million yen and non-controlling interests of 16,465 million yen increased respectively. As a result, shareholders' equity ratio excepting non-controlling interests was 28.1%, an increase of 4.1 percentage points.