

YAMASHIN-FILTER CORP. Financial Results for the Fiscal Year Ended March 2016

**To secure profits through the service parts business
and cost reduction**

Develop new products, and cultivate new fields

**May 23, 2016
(Stock code:6240)**

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Results Briefing Summary

	FY2014	FY2015	FY2016
Topics	Tokyo Stock Exchange 2 nd Section	Tokyo Stock Exchange 1 st Section	ING19*

*The business strategy for achieving a market cap of 30 billion yen: “Into the Next Generation 19”

Business Environment	<p>While seeing the downturn of the construction machinery market, we feel that the Chinese market has bottomed out.</p> <p>Development of next-generation products, and the cultivation of new fields other than that of construction machinery</p>
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In-company measures	<p>Conservative business reform</p> <p>Aggressive business reform</p>
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FY2015 External Environment

- The Chinese construction machinery market entered the mid-term stagnation period. We also consider the markets other than that of construction machinery as possible targets.

	Emerging countries	Developed countries
Line parts	<ul style="list-style-type: none"> ■ In China, the production output dropped considerably due to the sluggish investment in real estate. ■ In other Asian regions, the production output declined due to the downturn in the Chinese market. 	<ul style="list-style-type: none"> ■ In Japan, the production output decreased due to the recoil from the rush demand before the enforcement of the restrictions on exhaust gases. ■ In the U.S., the production output declined amid the downturn of energy-related investment.
Service parts	<ul style="list-style-type: none"> ■ As the operation hours of construction machinery are decreasing, construction machinery makers are reducing the inventory of service parts in each region. 	
Industrial filters	<ul style="list-style-type: none"> ■ The demand for machine tools was strong in the first half, but weak in the second half. 	
Process filters	<ul style="list-style-type: none"> ■ The demand for filters for automobile painting in China is strong. 	<ul style="list-style-type: none"> ■ The development of cooperative systems with Korean semiconductor makers progressed.

Chinese construction machinery market



The Chinese construction machinery market is sluggish, but the rate of decline is becoming moderate.

Listed in TSE1



As our company was listed in the first section of Tokyo Stock Exchange, we will expand our business and improve our corporate value further.

I . FY2015 Results

- Management system for earning profit with PAC15**

Characteristics of our business and financial statements

Segments and KPI

- Filters for construction machinery are classified into “line parts” and “service parts .”
- Line parts are the filters for new construction machines
 - The primary indicator is the number of new construction machines in demand.
- Service parts are the filters for replacement
 - The primary indicator is “the number of units in operation” × “operation hours.”

Selling methods and regional trends

- The filters for construction machinery are sold to construction machinery makers (100%).
 - In principle, we do not sell the products to end users directly.
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- The sales by region are for reference.
 - Sales are calculated based on the destinations of our invoices, and so our data differ from the actual regional market trends.
 - “Consolidation adjustments” means adjustments required due to differences in accounting periods of subsidiaries for financial settlements

FY2015 Results Summary

- Sales and profits significantly decreased YoY due to the sluggish construction machinery market

	FY2014	FY2015	FY2015	FY2015	Increase/decrease YoY	
	Actual	Initial forecast* ¹	Revised forecast* ²	Actual	Amount	%
(Million yen)						
Net sales	10,703	11,353	9,406	9,458	△ 1,245	△ 11.6%
Operating income	869	835	368	407	△ 462	△ 53.2%
Net income	430	540	200	183	△ 246	△ 57.3%
ROE	8%	8%	3%	3%	—	—

*1: The figures are based on the business forecasts disclosed on May 15, 2015.

*2: The figures are based on the business forecasts disclosed on February 4, 2016.

Sales by product

- Sales of line parts largely decreased due to the slowdown in the Chinese market
- Sales of service parts also decreased due to the impact of main customers' adjustments to inventory levels of service parts

	FY2014	FY2015	FY2015	FY2015	Increase/decrease YoY	
	Actual	Initial forecast	Revised forecast	Actual	Amount	%
(Million yen)						
Construction machinery filters	9,479	10,261	8,131	8,167	△ 1,312	△ 13.8%
Line parts	4,329	4,875	3,537	3,549	△ 779	△ 18.0%
Service parts	5,150	5,385	4,593	4,617	△ 532	△ 10.3%
Industrial filters	444	479	458	468	24	5.4%
Process filters	667	709	825	815	148	22.3%
Consolidation adjustments	112	△ 97	△ 8	6	△ 105	△ 93.9%
Total of sales	10,703	11,353	9,406	9,458	△ 1,245	△ 11.6%

Sales by region

- Mainly because of the downturn in the construction machinery market, sales declined in many regions.
Note: Since sales are calculated based on the destinations of our invoices, our data differ from actual regional market trends.

(Million yen)	FY2014 Results		FY2015 Results		Increase/Decrease YoY	
	Amount	%	Amount	%	Amount	%
Japan	5,525	51.6%	4,885	51.6%	△ 640	△ 11.6%
North America	2,120	19.8%	1,722	18.2%	△ 397	△ 18.8%
China	687	6.4%	540	5.7%	△ 146	△ 21.4%
Asia	1,055	9.9%	1,053	11.1%	△ 2	△ 0.2%
Europe	1,091	10.2%	1,120	11.8%	28	2.6%
Other (Middle East etc.)	112	1.0%	130	1.4%	18	17.0%
Consolidation adjustments	111	1.0%	6	0.1%	△ 105	△ 93.9%
Total of sales	10,703	100.0%	9,458	100.0%	△ 1,245	△ 11.6%

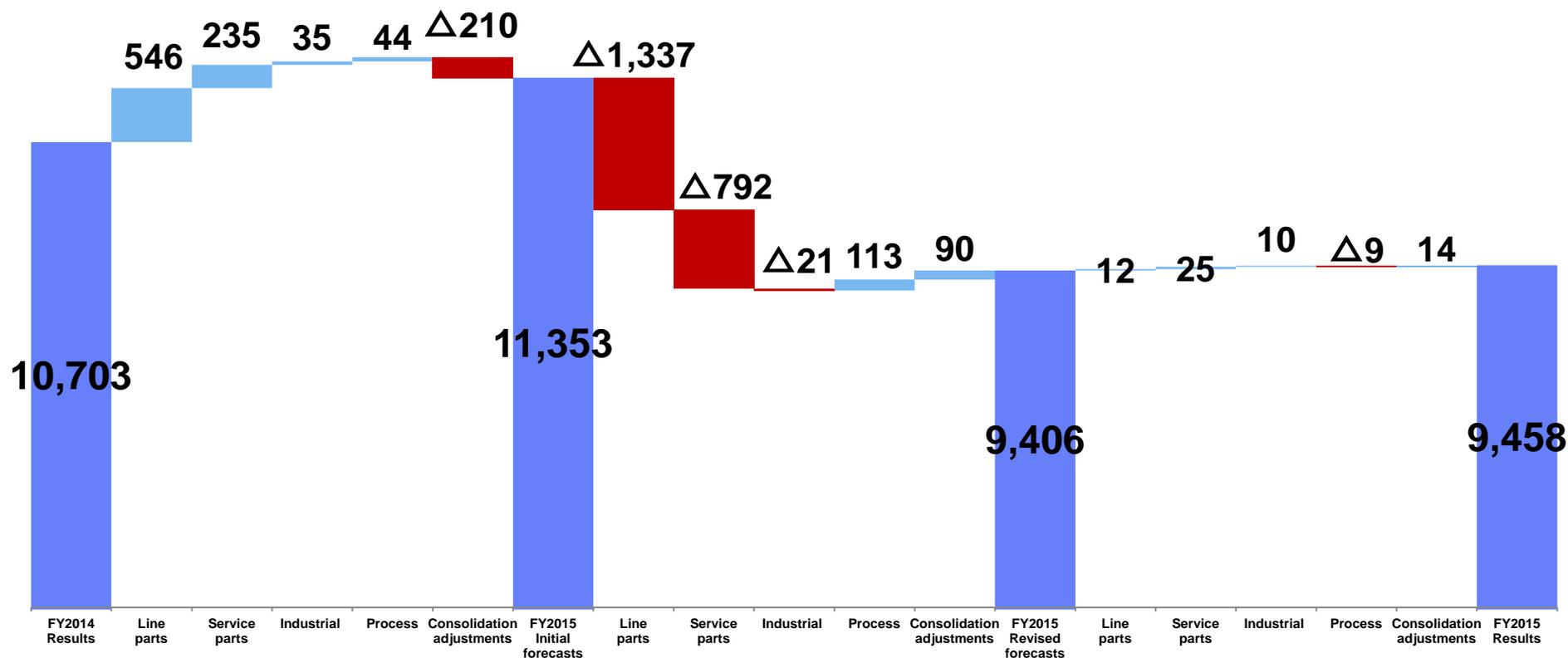
*Regional sales are calculated based on the locations of corporations receiving our invoices.

*As the methods for calculating regional sales were changed, the breakdown of sales for the term ended Mar. 2015 has been revised.

Factors for increase/decrease in sales

- Due to the downturn in the Chinese market, the sales of line parts and service parts dropped more than estimated in initial forecasts.

(Million yen)

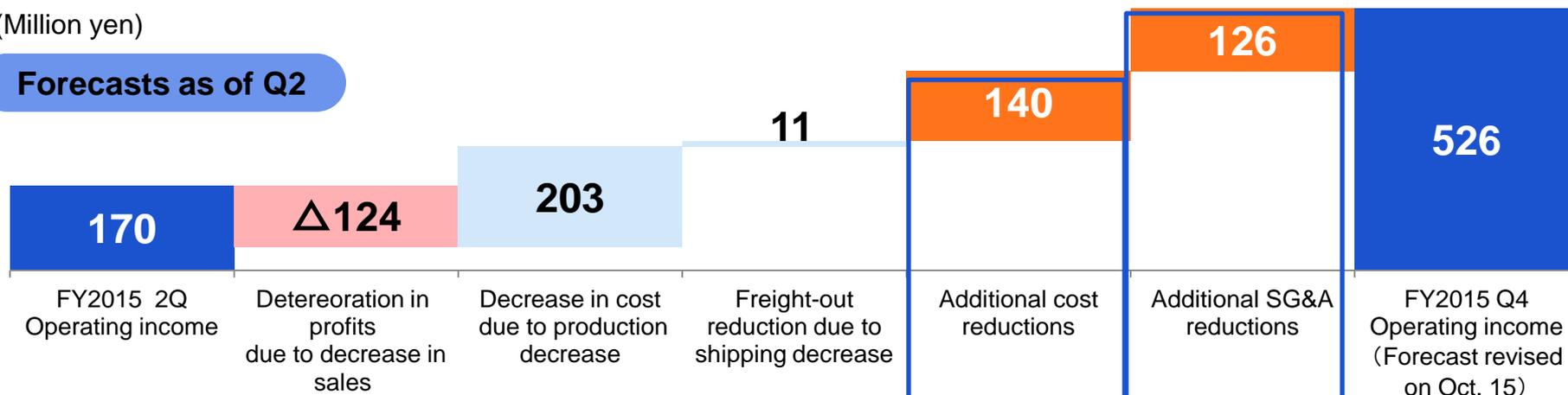


Project PAC 15

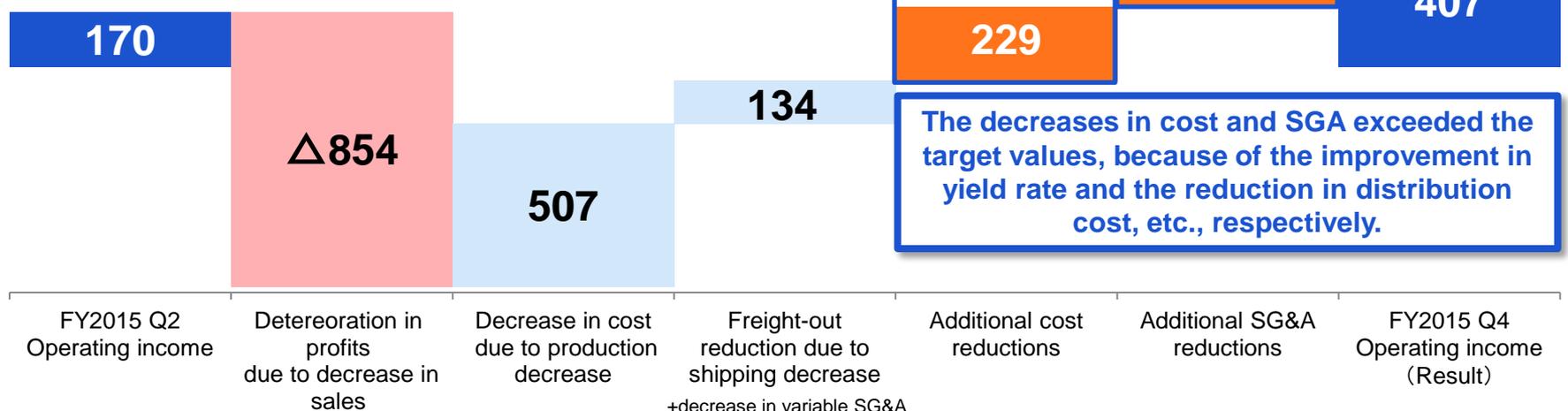
■ Additional cost reduction exceeded the target, contributing significantly to the profits.

(Million yen)

Forecasts as of Q2



Results



The decreases in cost and SGA exceeded the target values, because of the improvement in yield rate and the reduction in distribution cost, etc., respectively.

Balance Sheet

- Cash and deposits increased due to the issuance of corporate bonds, etc.
- We secured a stable financial ground, including the commitment line contract * for 3 billion yen.

*Disclosed as of March 25, 2016

(Million yen)	End-FY2014	End-FY2015	Change		End-FY2014	End-FY2015	Change
Current assets	7,384	7,604	220	Current liabilities	1,893	1,704	△ 189
Cash and deposits	2,645	3,806	1,160	Notes and accounts payable-trade	1,066	796	△ 270
Notes and accounts receivable-trade	2,464	1,880	△ 583	Short-term loans payable, Current portion of long-term loans payable and corporate bonds	300	500	200
Merchandise and finished goods, Raw materials and supplies	1,765	1,465	△ 300	Others	527	407	△ 119
Others	509	452	△ 56	Fixed liabilities	1,102	1,617	515
Fixed assets	1,963	1,919	△ 44	Corporate bonds	-	800	800
Tangible fixed assets	1,456	1,322	△ 133	Long-term loans payable	750	450	△ 300
Intangible fixed assets	164	97	△ 67	Net defined benefits liability	147	164	16
Investments and other assets	341	499	157	Others	204	203	△ 1
Total assets	9,347	9,523	176	Total net assets	6,351	6,201	△ 149
				Total of liabilities and net assets	9,347	9,523	176

Shareholders' equity ratio

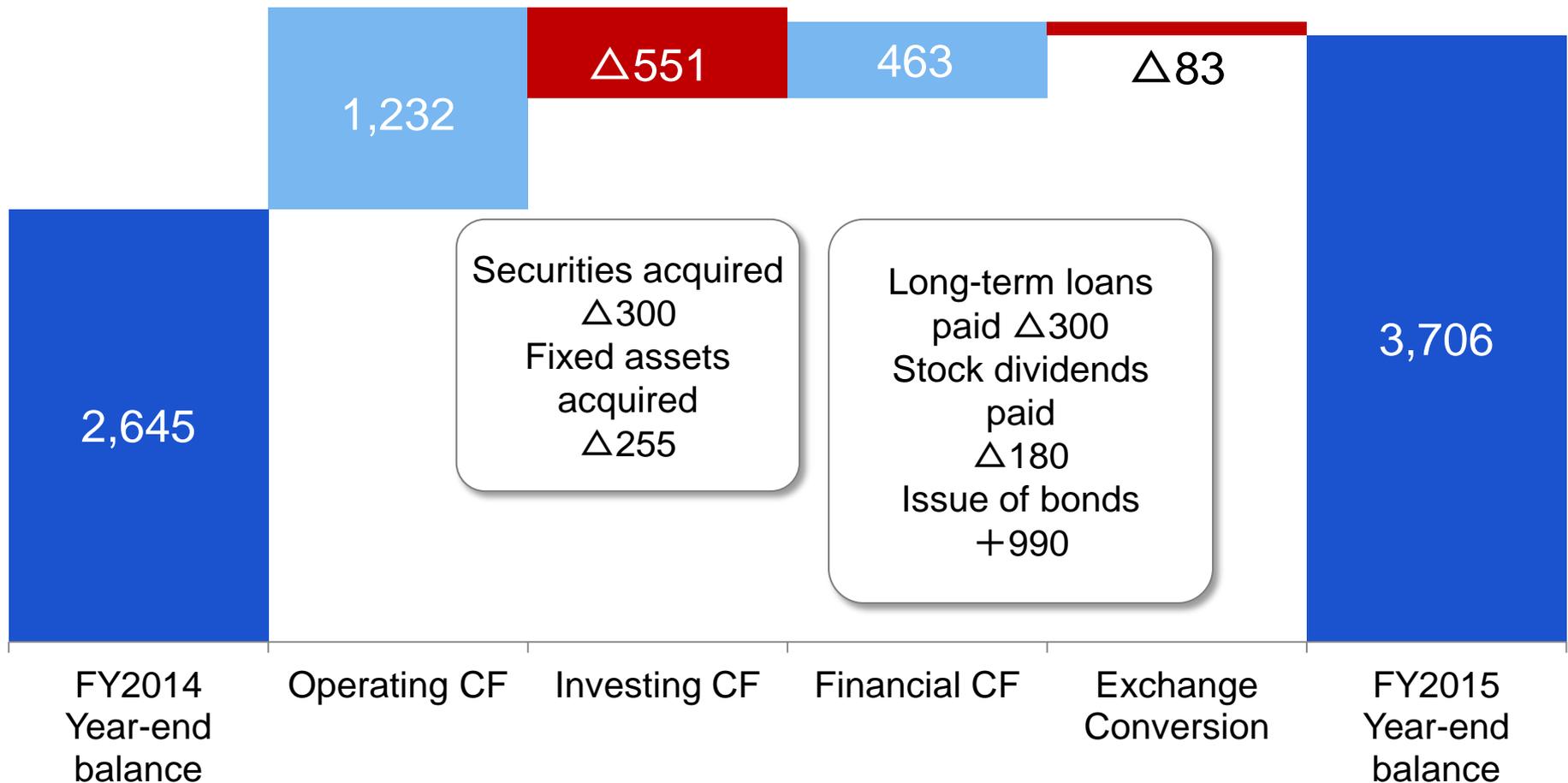
67.9%

65.1%

Factors for increase/decrease in cash flows

■ Balance of cash and cash equivalents increased compared to the previous fiscal year

(Million yen)

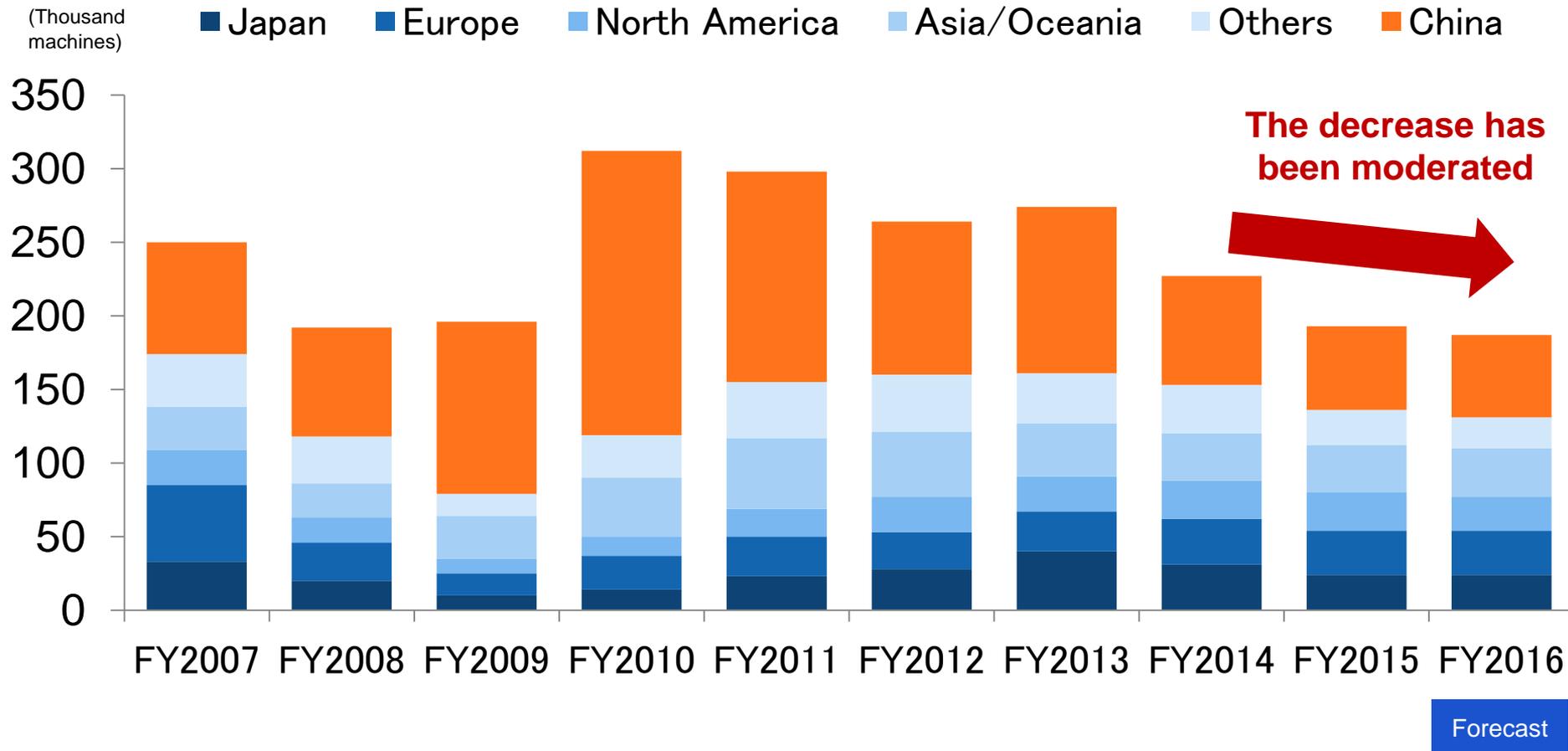


Ⅱ . Medium-Term Management Plan

—We aim to increase the line-up of line parts with new proposals and raise the level of service parts sales by enhancing sales promotion.

Business environment / Demand for new excavators

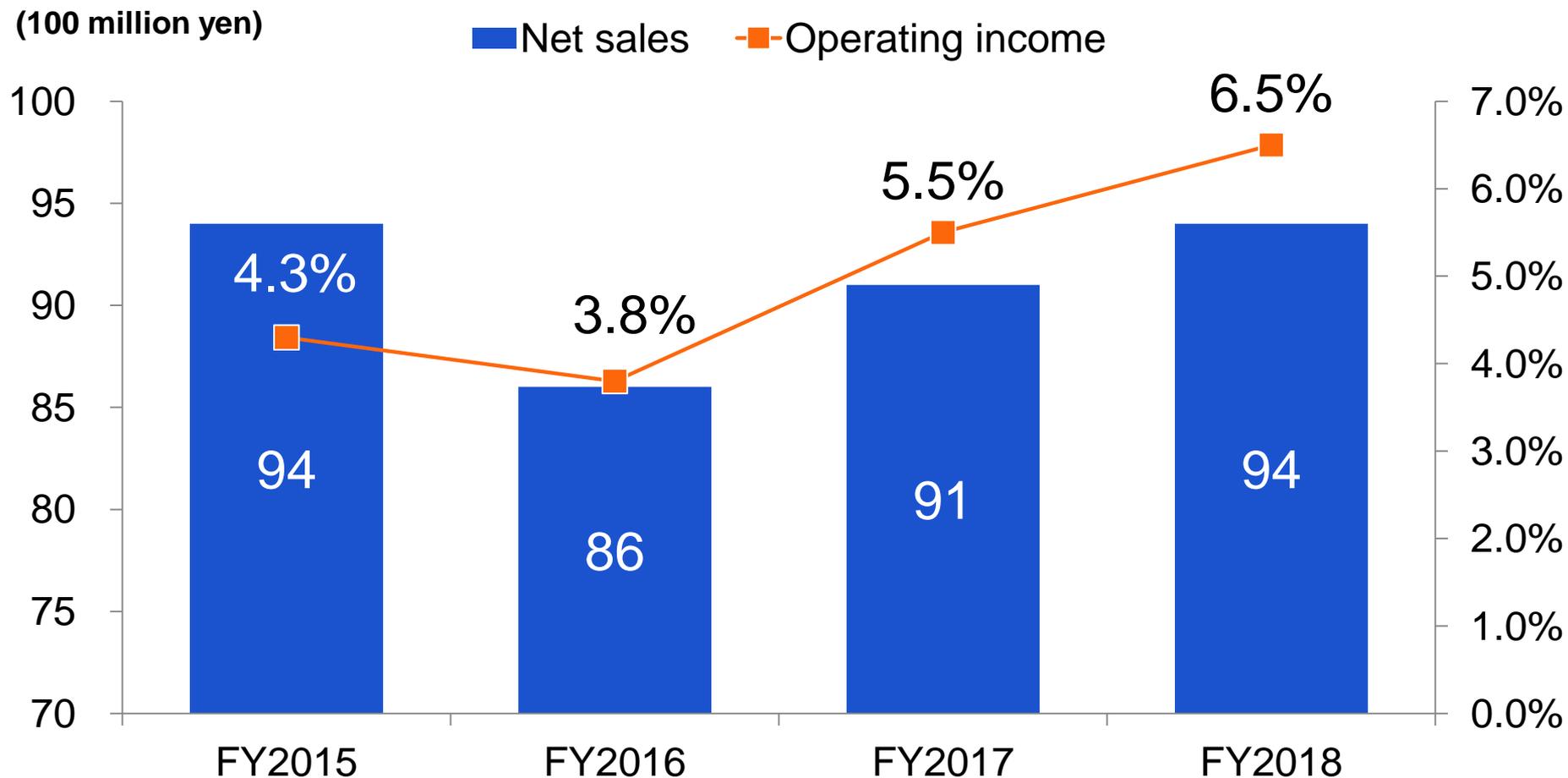
■ The demand for new construction machines was sluggish especially in FY2015 Q2. In FY2016, decrease rate is becoming lower



*Figures are estimated by YAMASHIN-FILTER based on data from construction machinery manufacturers and industry associations

Medium-Term Management Plan

■ Amid the sluggish market, we aim to increase sales and gross margin in 3 years



FY2016 Full-year Business Forecasts

- As sales are not expected to recover, we will strive to secure a high profit margin.

	FY2015	FY2016	Increase/Decrease YoY	
	Results	Forecasts	Amount	%
(Million yen)				
Net sales	9,458	8,670	△ 787	△8.3%
Operating income	407	344	△ 63	△15.5%
Net income	183	181	△ 2	△1.7%
ROE (%)	3%	3%	—	—

*Exchange rate used in the forecasts: 1USD = 120JPY, 1EUR = 130JPY

FY2016 Full-year sales forecasts by product

- For both line parts and service parts, demand has been recovering since the third quarter of the previous term, but sales are estimated to decrease from the previous term.

(Million yen)	FY2015	FY2016	Increase/Decrease YoY	
	Results	Forecasts	Amount	%
Construction machinery filters	8,167	7,420	△746	△9.1%
Line parts	3,549	3,069	△479	△13.5%
Service parts	4,617	4,350	△267	△5.8%
Industrial filters	468	483	15	3.3%
Process filters	815	783	△32	△4.0%
Consolidation adjustments	6	△17	△24	—
Total of sales	9,458	8,670	△787	△8.3%

Outline of activities for expanding sales

- Concrete measures

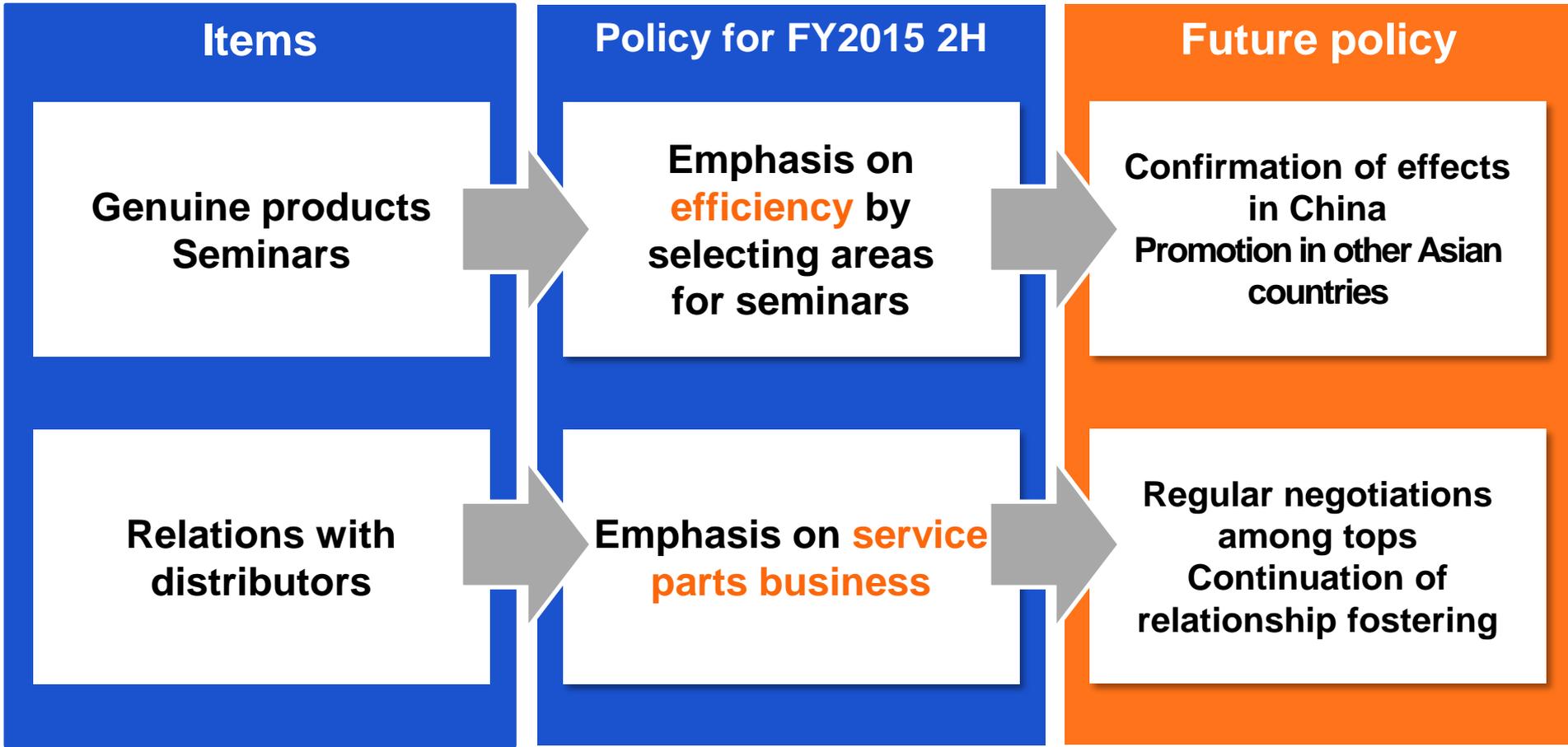
Segment		Keywords in our policy	Concrete measures
Construction machinery filters	Line parts	<ul style="list-style-type: none"> ■ Proposal for failure prediction and ICT technology 	<ul style="list-style-type: none"> ■ Development of products based on the ICT technology
		<ul style="list-style-type: none"> ■ Proposal for effective solutions 	<ul style="list-style-type: none"> ■ Proposal for streamlining from single filter to an entire hydraulic system
	Service parts	<ul style="list-style-type: none"> ■ To retake a share from non-genuine products by holding seminars 	<ul style="list-style-type: none"> ■ Selection of priority areas, and holding seminars focusing on those areas
Industrial filters		<ul style="list-style-type: none"> ■ Strengthening of cooperative systems with partners 	<ul style="list-style-type: none"> ■ Cultivation of filters for engines
Process filters		<ul style="list-style-type: none"> ■ Diversification of product series 	<ul style="list-style-type: none"> ■ Cultivation of the electronic field

Ⅲ. FY2016 Plan

**—To continue the cost reduction plan
and minimize the decrease in profit**

Progress in sales promotional activity of service parts

■ Although there were some influences of the decrease in operation hours and the adjustment of inventory, sales promotion activities have curbed the decrease in sales of service parts.



■ Aim to expand the service parts business amid the sluggish market

Sales volume of service parts

(1) Macro-environment

No. of units in operation × operation hours

Degree of public works and investment in real estate

(2) Clients

Clients' inventory of service parts

Performance and policy of each construction machinery maker and each distributor

(3) Our measures

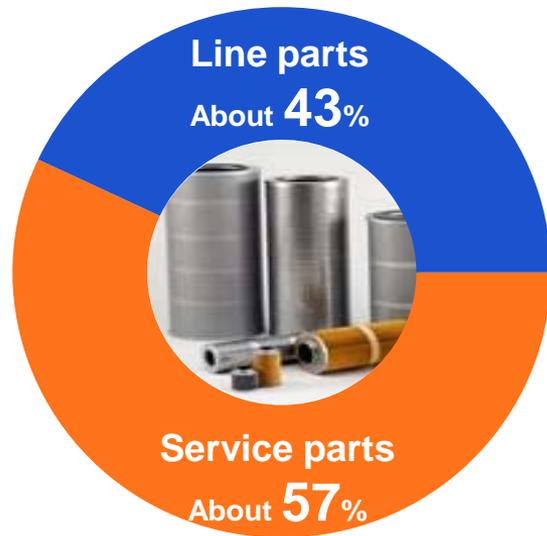
Ratio of genuine products

Quality and recognition level of our genuine products

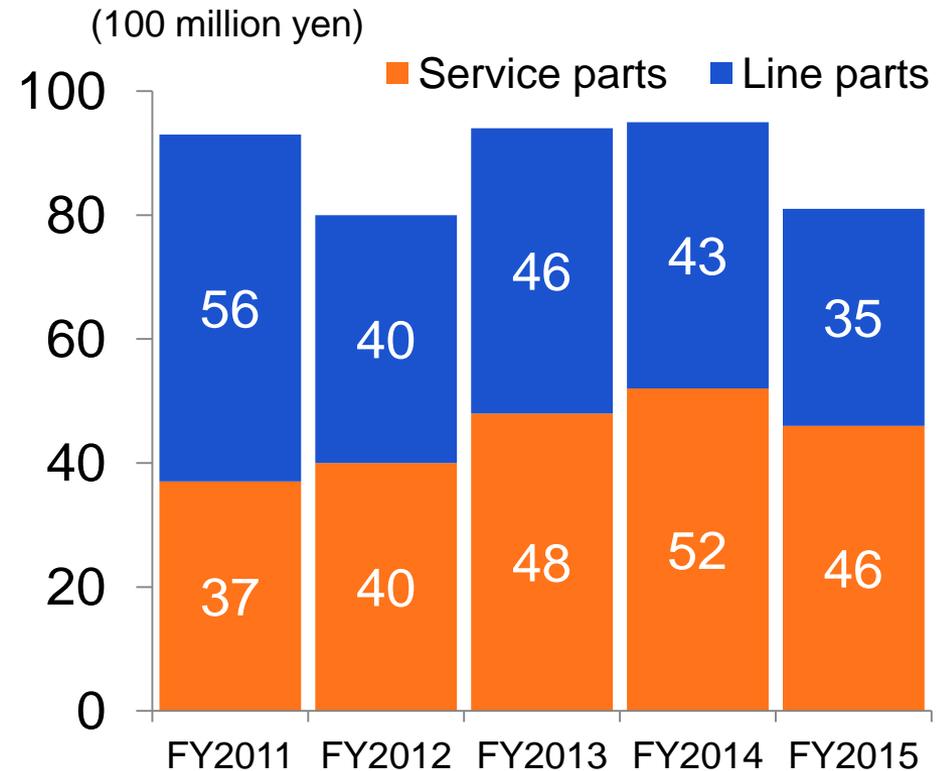
Demand for supply parts

- The business of service parts can earn a stable income. If the number of construction machinery in operation increases, the demand for service parts will expand gradually.

FY2015 Sales composition ratio of construction machinery filters



Changes in sales of line parts and service parts



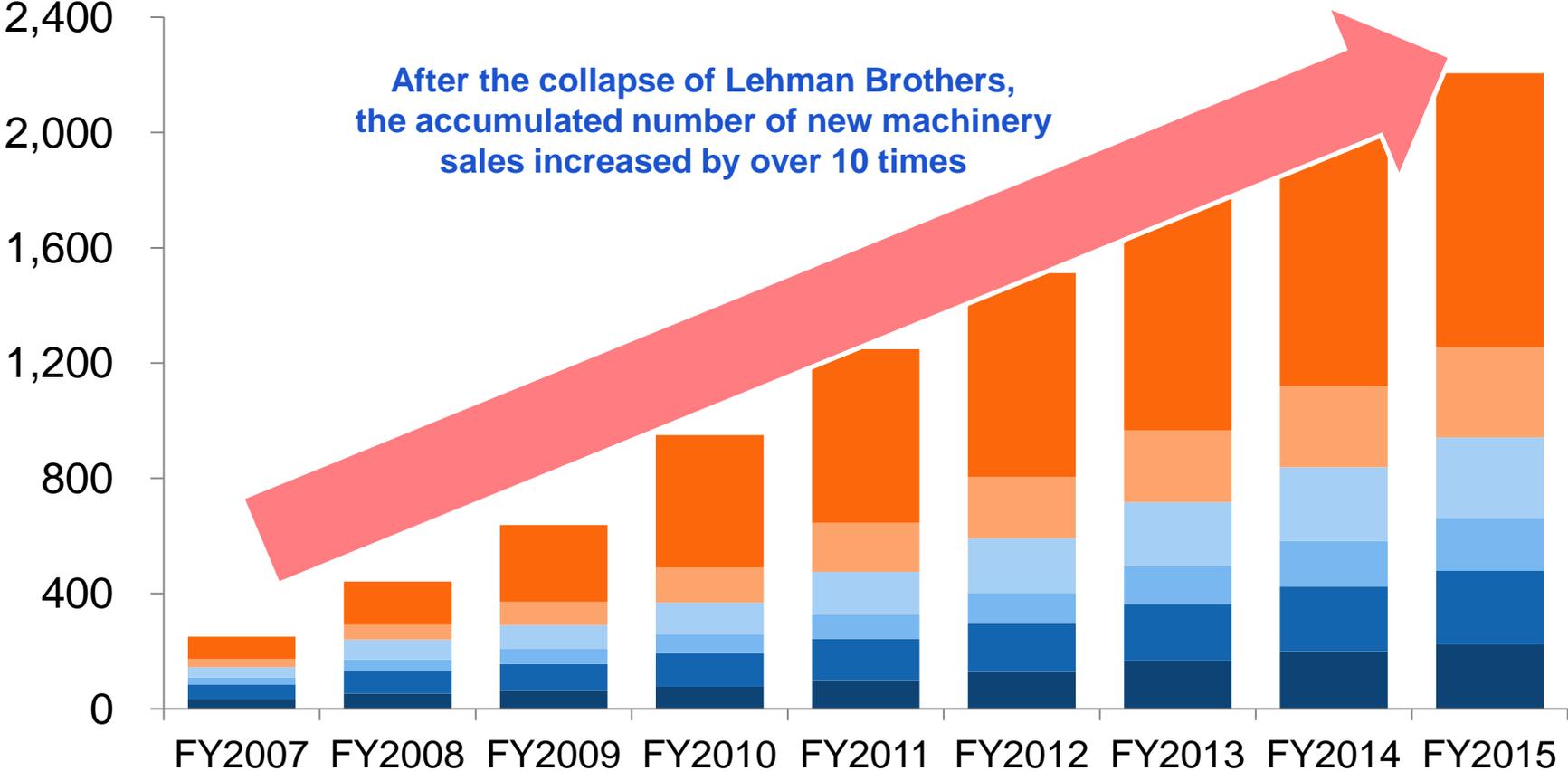
*Figures for FY3/12 are non-consolidated basis.

Cumulative number of new machinery sales

■ Cumulative number of new machinery sales has been increasing even after the collapse of Lehman Brothers

(Thousand machines)

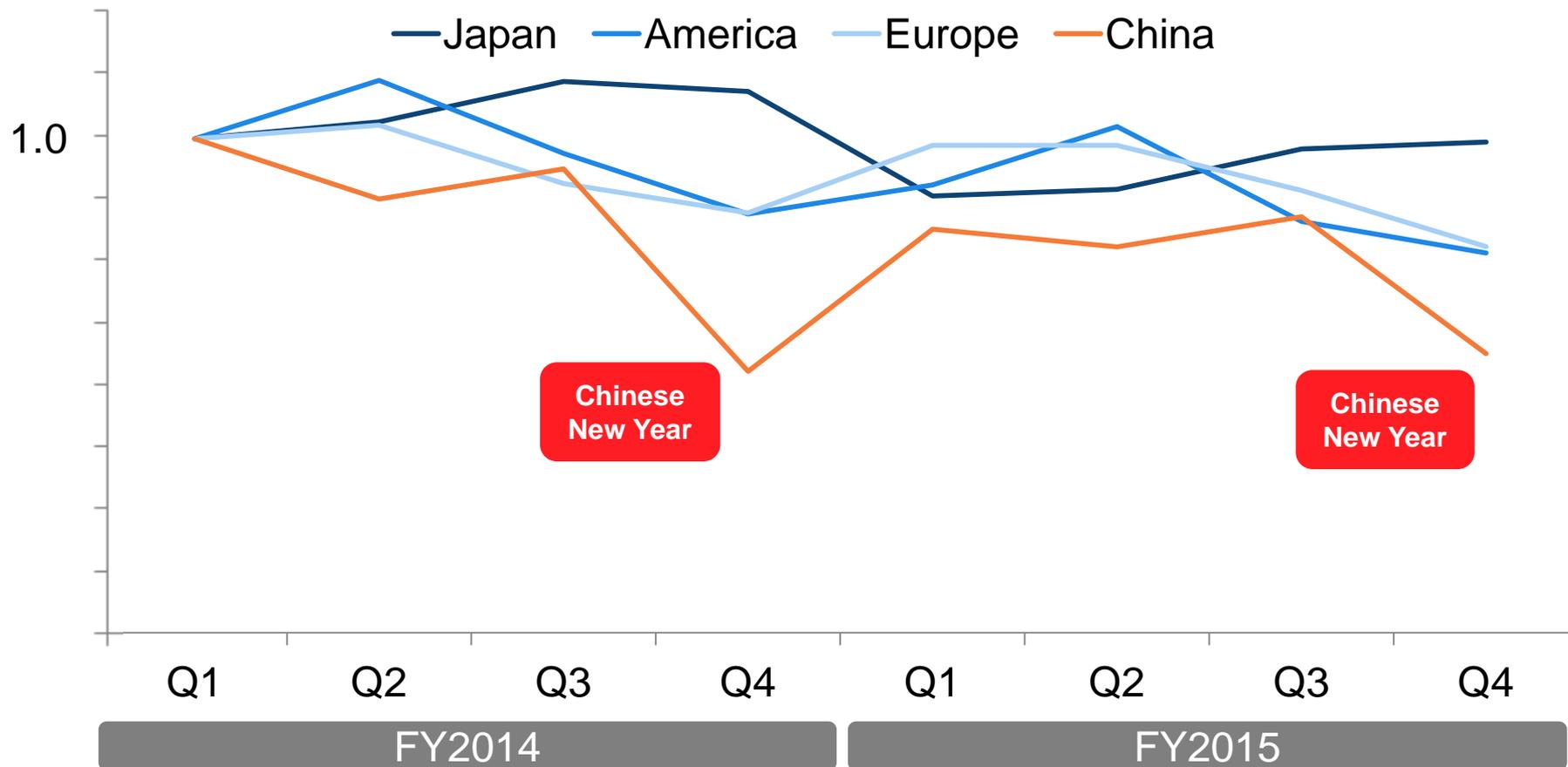
■ Japan ■ Europe ■ North America ■ Others ■ Asia/Oceania ■ China



Construction machinery operating hours

Moderate decrease as a whole

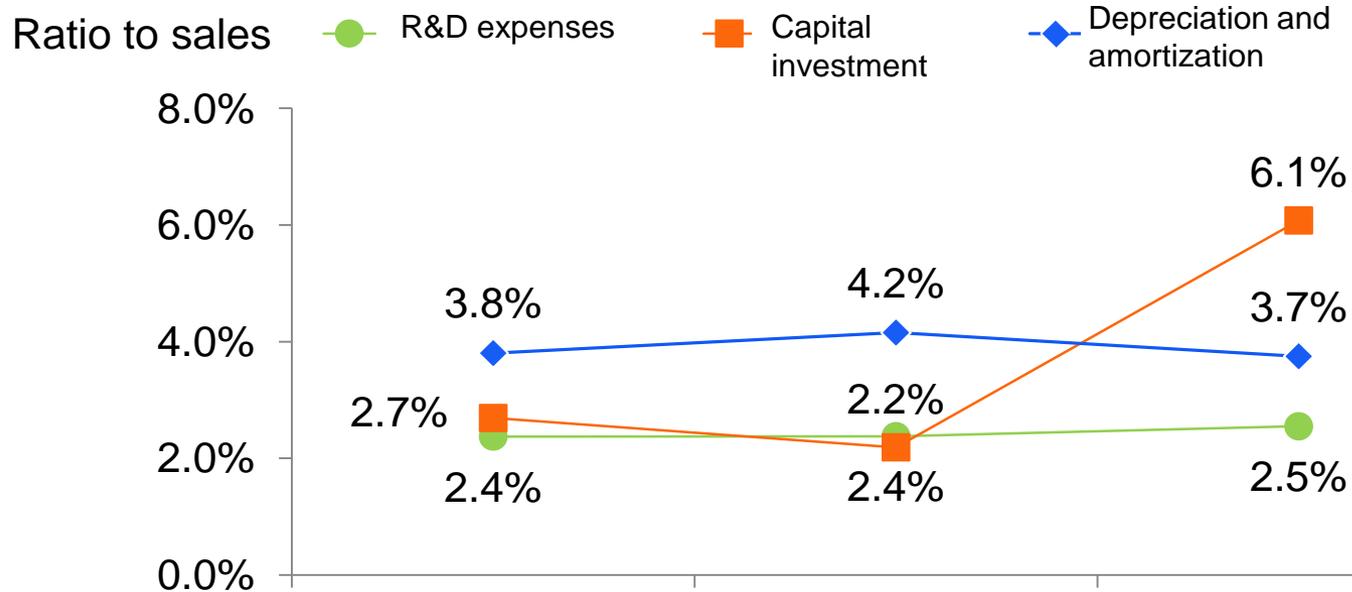
(Indexation under the assumption that the value for the period from Apr. to Jun. 2014 equals 1.0. Quarterly variation)



(Reference) Prepared by YAMASHIN-FILTER based on the Nomura Securities analyst report

Changes in R&D expenses, capital investment and depreciation and amortization

■ Equipment investment is estimated to increase, due to the preparation for new proposals, etc.



(Million yen)

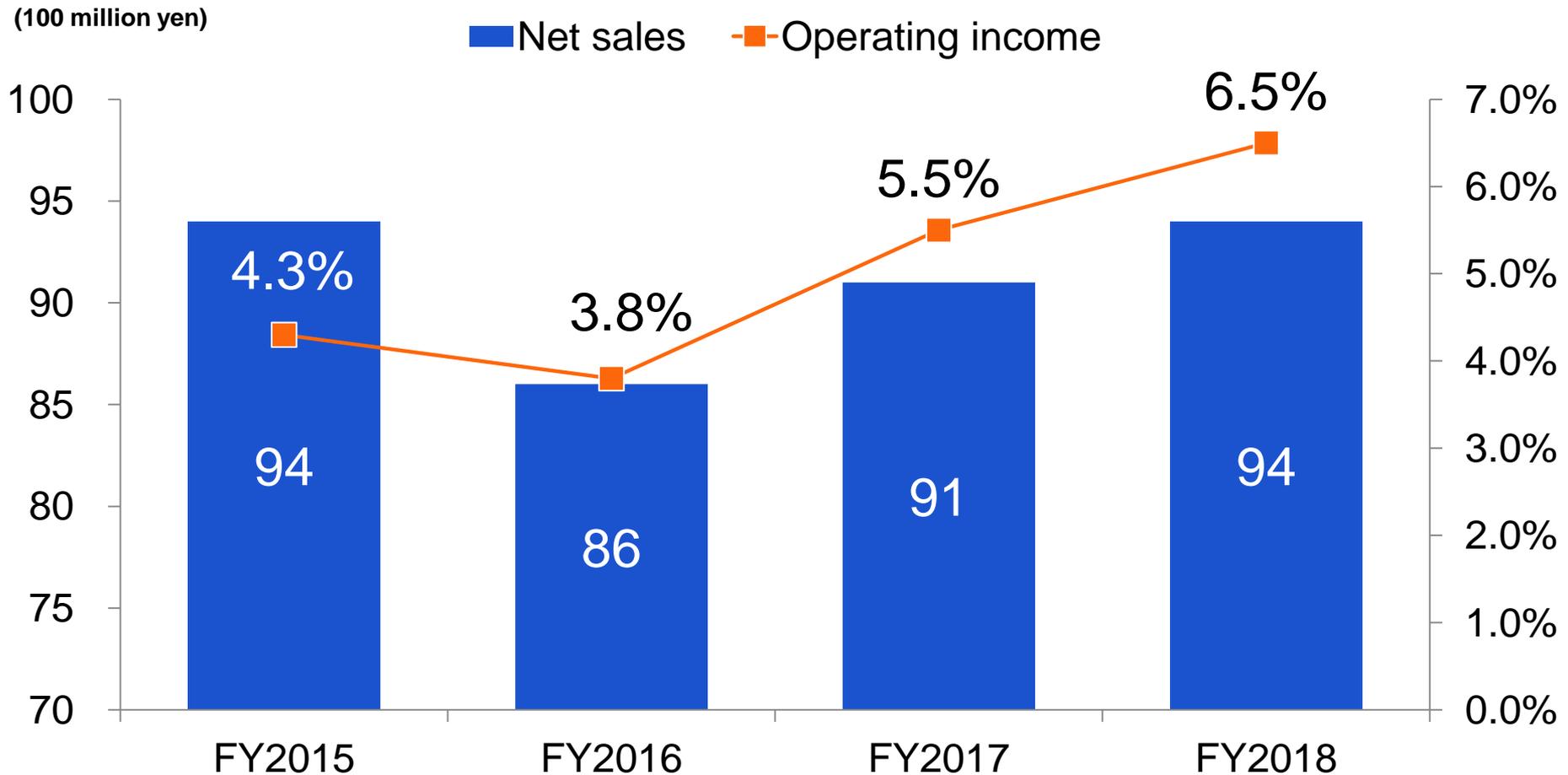
	FY2014	FY2015	FY2016
● R&D expenses	254	225	221
■ Capital investment	288	207	527
◆ Depreciation and amortization	407	393	325

IV. Growth potential

- Expansion into new fields other than that of construction machinery**

Medium-term Management Plan (reshown)

■ Amid the sluggish market, we aim to increase sales and profit margin in 3 years.



Outline of activities for expanding sales

- Concrete measures (reshown)

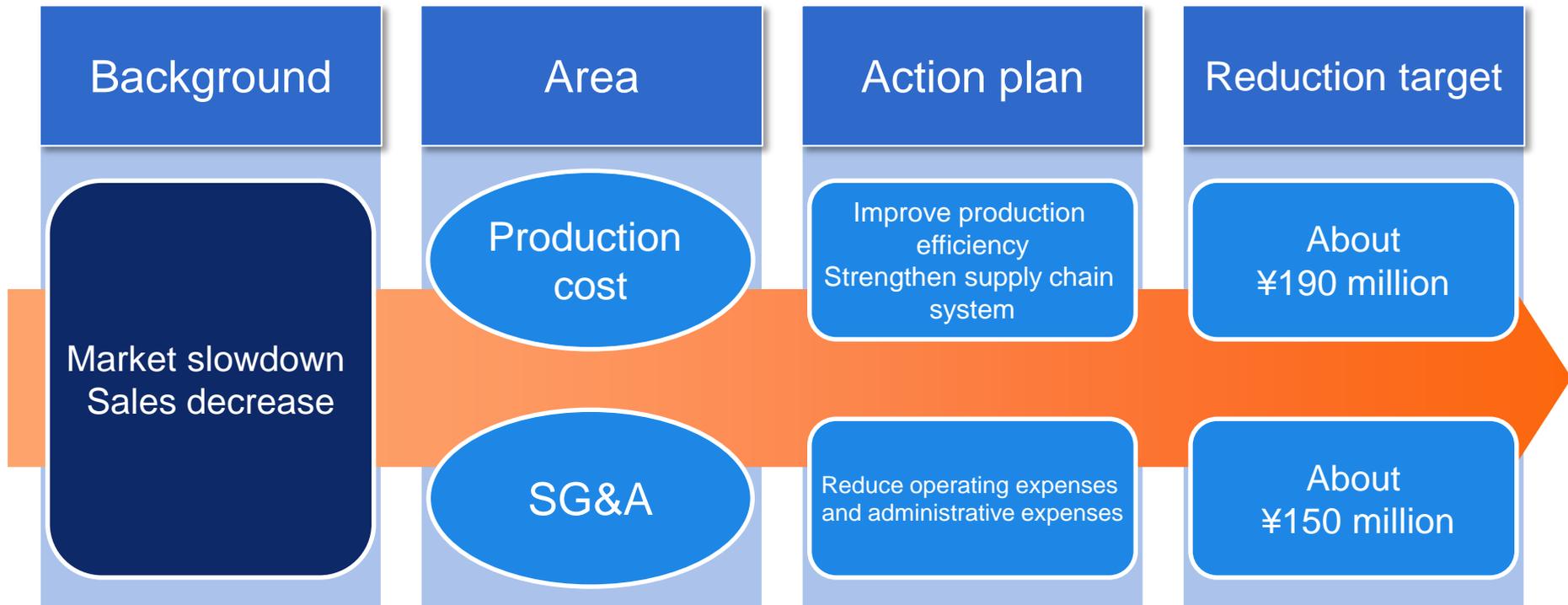
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Process filters		<ul style="list-style-type: none"> ■ Diversification of product series 	<ul style="list-style-type: none"> ■ Cultivation of the electronic field

Project PAC 16

- To keep reducing costs, to improve profit structure

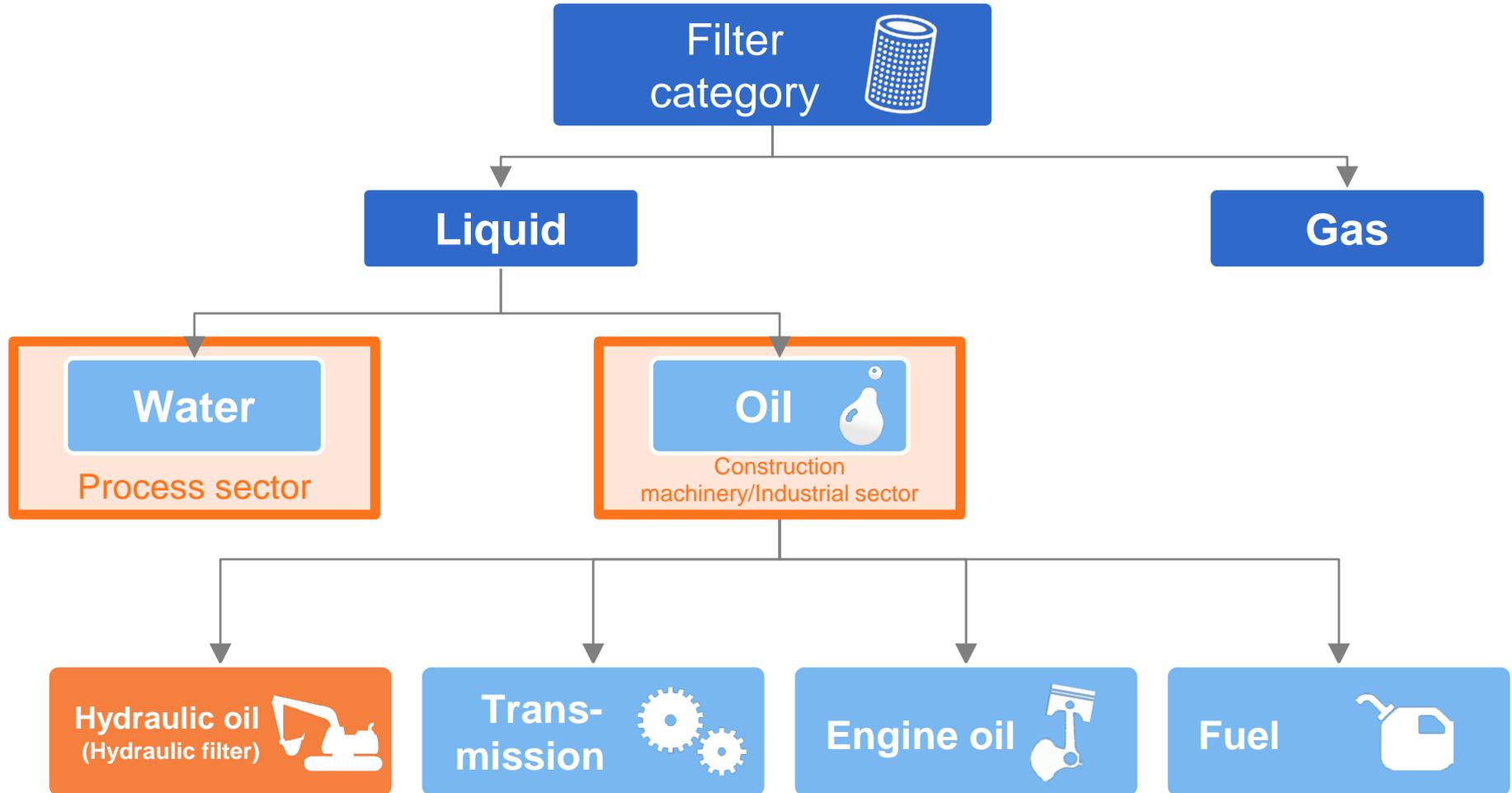
PAC16

Promptly **A**ctivated **C**ost reduction 20**16**



Growth Potential

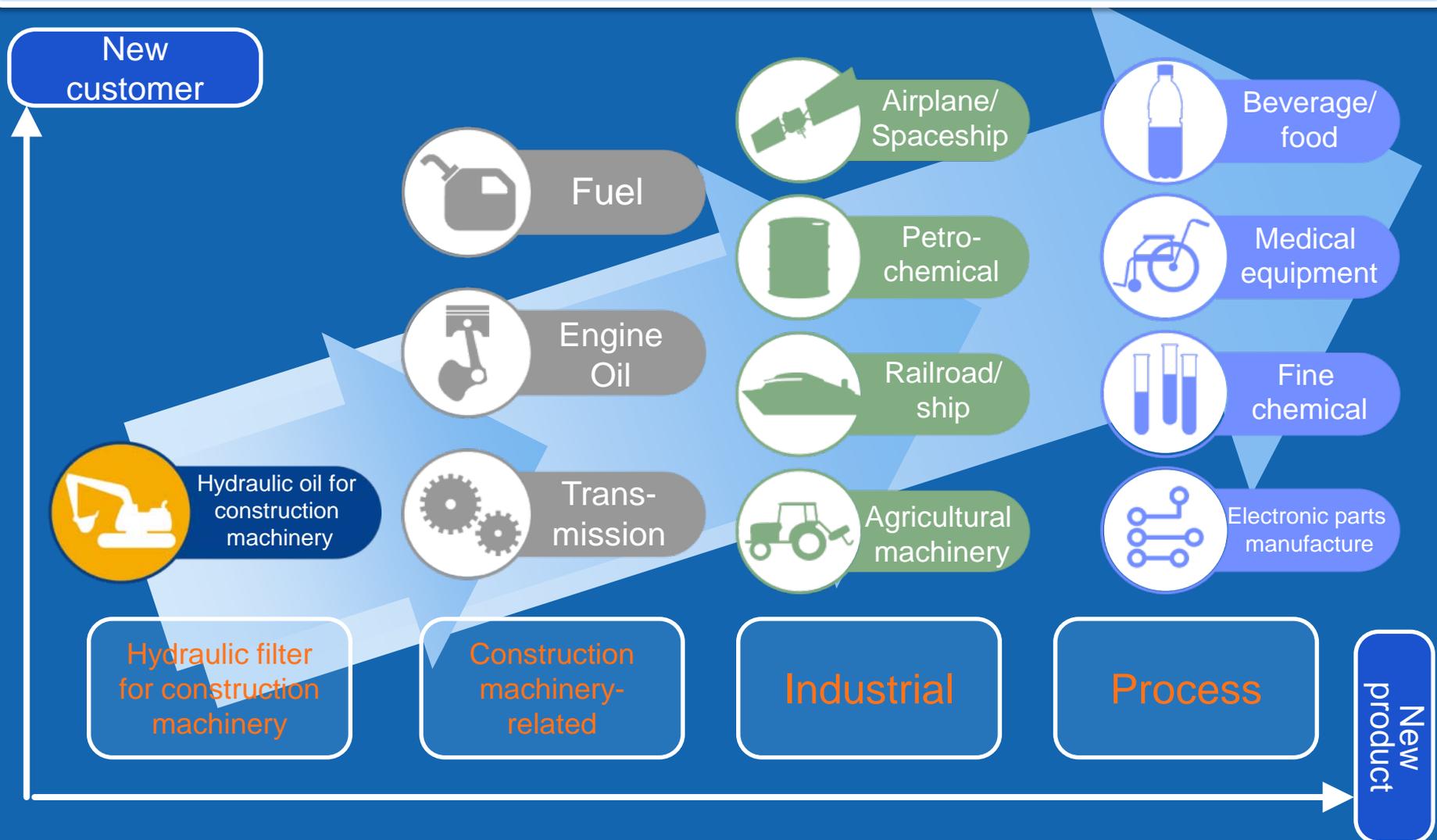
- To enhance the synergy with the construction machinery, industrial, and processing fields



*images

Growth Potential

■ Strengthen presence in peripheral markets and enter new business domains



News release I

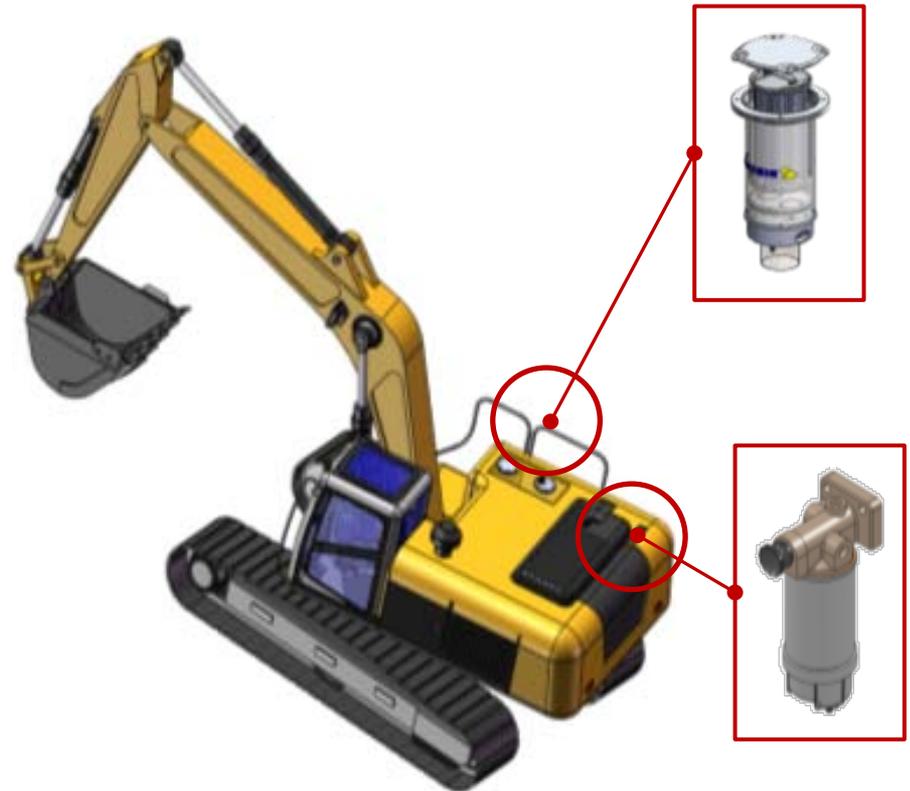
Started to supply products to Sany Heavy Machinery

- We will supply products to a local manufacturer in China on a full-scale basis for the first time.

About Sany Heavy Machinery

Manufacturer and seller of excavator as a part of Sany Group, the **largest** comprehensive machinery manufacturer **in China**

As initially planned, we started to supply our products from April



- Conclusion of a basic agreement for the business tie-up with Eiken Industries Co., Ltd.

YAMASHIN-FILTER CORP.

[1st section of TSE: 6240]

We handle mainly hydraulic filters for construction machinery

Eiken Industries Co., Ltd.

[JASDAQ of TSE: 7265]

Filters for automobile engine oil and fuel



Effective utilization of managerial resources and know-how

Improvement in business efficiency

Increase in revenue

Improvement in corporate value

Shareholder return

- For FY2016, we plan to maintain our dividend amount in FY2015
- No change has been made to the current shareholder benefit program

	FY2014	FY2015	FY2016
Dividend per share	19 yen ^{*1}	10 yen	10 yen
Shareholder benefit*	—	【Established】	【Retain】
DOE	1.9%	2.0%	—

*1: The company conducted 2-for-1 stock split as of September 1, 2015. Dividend per share for FY2014 is presented **on a pre-split basis**.

* Overview of the shareholder benefit:

Shareholders who hold 100 or more shares receive QUO cards (100 to less than 1,000 shares:¥500 QUO card, 1,000 or more shares:¥1,000 QUO card)

Date of right allotment: March 31 and September 30 (twice a year)

Reference yield (dividend + shareholder benefit):

4.45% (calculated based on the stock price as of the end-Apr. of 449 yen and one-unit number of shares)

FY2015 Results

- Due to the downturn of the construction machinery market, sales and profit dropped from the previous fiscal year.
- The goal of cost reduction was achieved.

Mid-term plan

- To increase sales and profit in 3 years
- To keep developing new products actively

New markets

- To prepare for the entry into markets other than that of construction machinery
- To aim to become a comprehensive filter maker

Forecasts regarding future performance presented in this material are based on information that was available at the time this material was released. Actual results may differ from the forecasts due to various factors such as market trends and business conditions etc.,

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