

The Specialist in Filtration
YAMASHIN



**Financial Results for the Third Quarter of
the Fiscal Year Ending March 2018**

-As the Chinese market is favorable now, we should build ourselves up for further growth. We will give our best to strengthen our production bases in developing new materials.

YAMASHIN-FILTER CORP. (6240)
February 5, 2018

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Report on financial results

-The market environment is as expected, and we will pay attention to the trend of exchange rates and the effects of Chinese New Year on sales in predicting our full-year business forecasts.

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II

Efforts to increase sales

-The start of proposal-based sales promotions;
in an effort to promote adoption of our filter products into new models

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III

Chinese market and our medium-term policy

- Evolution to a more robust corporate structure and expansion of our business portfolio

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Report on financial results

-The market environment is as expected, and we will pay attention to the trend of exchange rates and the effects of Chinese New Year on sales in predicting our full-year business forecasts



1. Financial Highlights for the Third Quarter of the FY 2017 (Fiscal Year Ending March 2018)

Sales & Profit and Loss

Net Sales	9,625 million yen: Up 33.6% YoY
Gross Profit	4,434 million yen: Up 37.9% YoY, gross margin rate: 46.1%, up 1.4% YoY (due to the 1.3% growth of sales and the 0.1% cost reduction as a result of PAC17)
Operating Income	1,521 million yen: Up 115.2% YoY, operating income margin: up 6.0% YoY (due to the 5.0% growth of sales and the 0.8% cost reduction through PAC17)
Net Income	976 million yen: Up 107.2% YoY

Market Conditions by Region

Market Conditions by Region

Japan	Corporate revenue and capital investment are strong. Demand grew from the previous year.
North America	Demand keeps growing due to the strong housing-related investment
Europe	Remains strong
Southeast Asia	Demand grew as a whole, mainly in Indonesia and Malaysia
China	The demand for construction machinery kept growing considerably due to the expansion of infrastructure investment

Segment Conditions

Segment Conditions by Line Parts/Service Parts

Line Parts	Sales rose 41.6% YoY, because the scheduled production amounts of our major clients increased due to the demand growth in the markets of China, Japan, and other Asian countries.
Service Parts	Sales rose 32.9% YoY, due to the increase in the operation hours in the markets of China, Japan, and other Asian countries.
Other Sales	
Process Parts	Sales rose 9.1% YoY, due to the sales growth of products for housing in Japan, etc.
Industrial Parts	Sales rose 23.3% YoY, due to the sales growth of maintenance parts for Shinkansen (bullet trains) in Japan, etc.

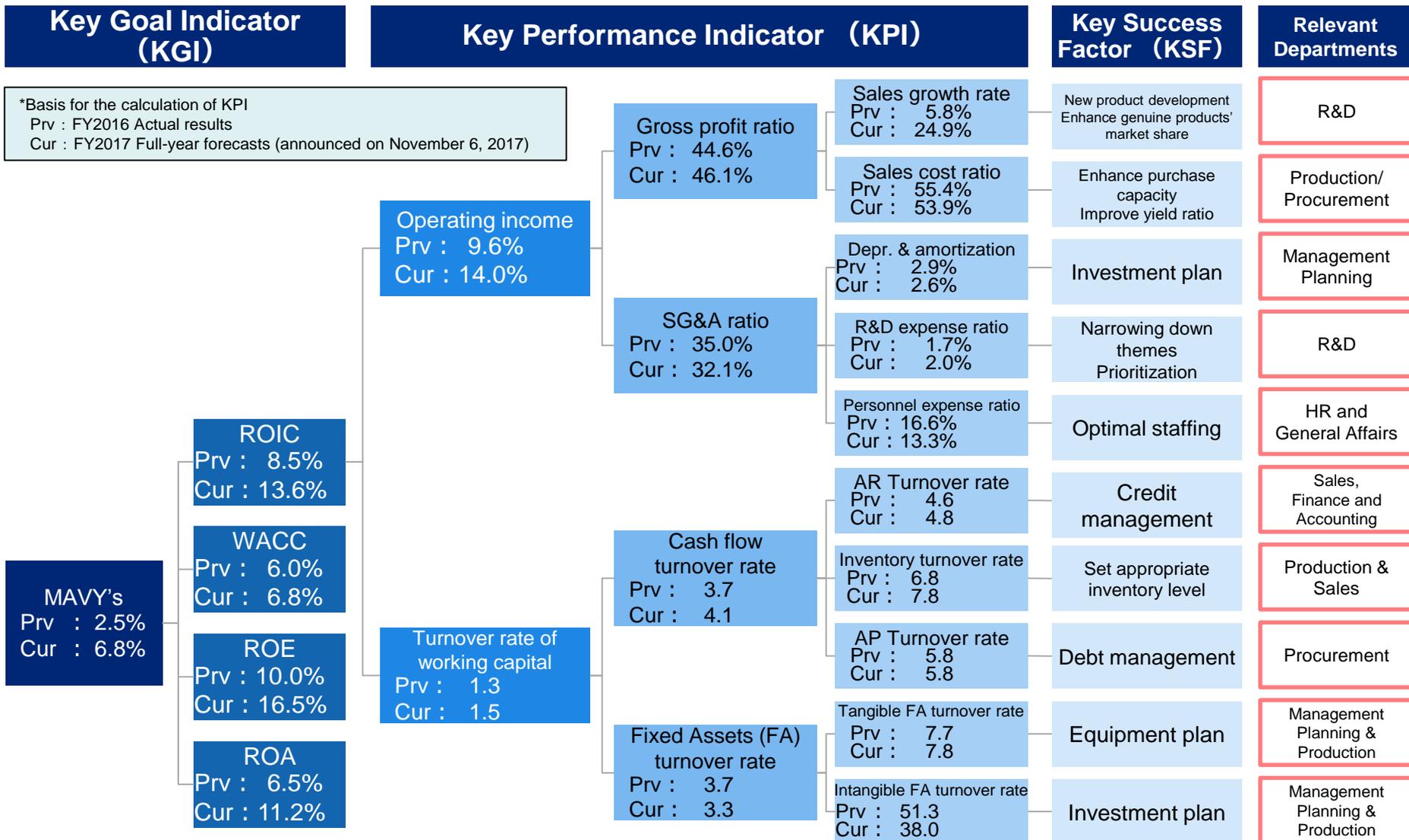
SG&A Expenses

- SG&A ratio improved by 4.6% YoY to 30.3%, mainly due to sales growth and cost reduction through PAC17.

Exchange Rate Fluctuation's Impact

- Exposure to the exchange risk: the exchange risk is low, due to the operational hedge - “marry and netting” within the consolidated group
- The exposure due to the holdings of foreign exchange in Q3 is about 37 million yen

MAVY's Whole Picture and Relevant Departments



1. Financial Highlights for the Third Quarter of the FY 2017 (Fiscal Year Ending March 2018)

① Business Results for the Third Quarter of the Fiscal Year Ending March 2018 (Oct.-Dec.)

FY2017 Q3 Financial Summary (QTD)

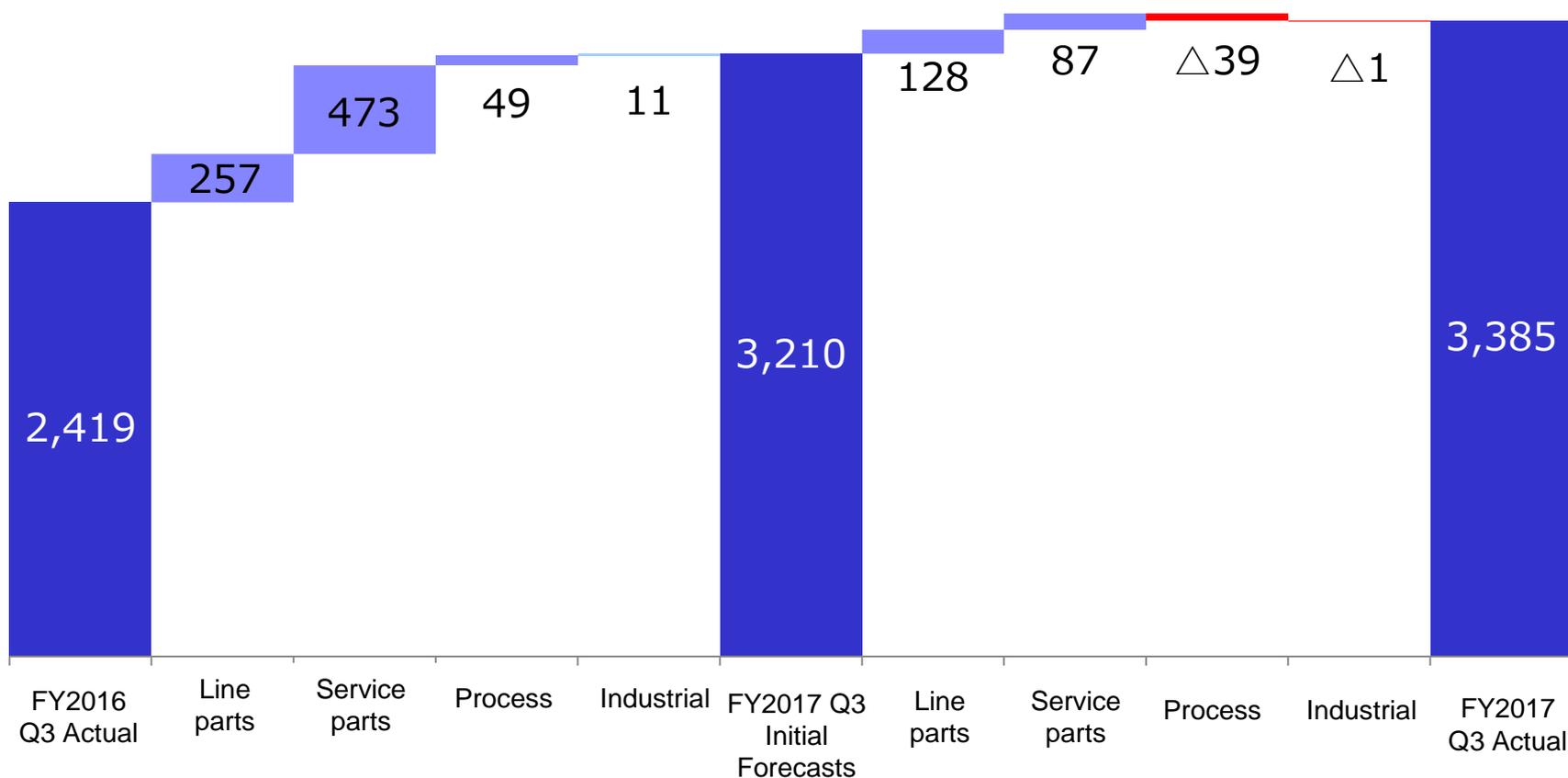
- YoY Comparison -

(Million yen)	FY2016 Actual	FY2017 Actual	YoY change	
	Q3	Q3	Amount	%
Net sales	2,419	3,385	966	39.9%
Operating income	270	553	282	104.4%
Operating income margin	11.2%	16.4%	5.2P	-
Ordinary income	254	536	281	110.6%
Ordinary income margin	10.5%	15.8%	5.3P	-
Net income	198	366	168	85.1%
Net income margin	8.2%	10.8%	2.6P	-
Exchange rates				
AR USD	109.3	113.0	3.7	3.3%
EUR	117.8	133.0	15.2	12.9%

Changes in Sales (QTD)

- from FY2016Q3 to FY2017Q3

(Million yen)

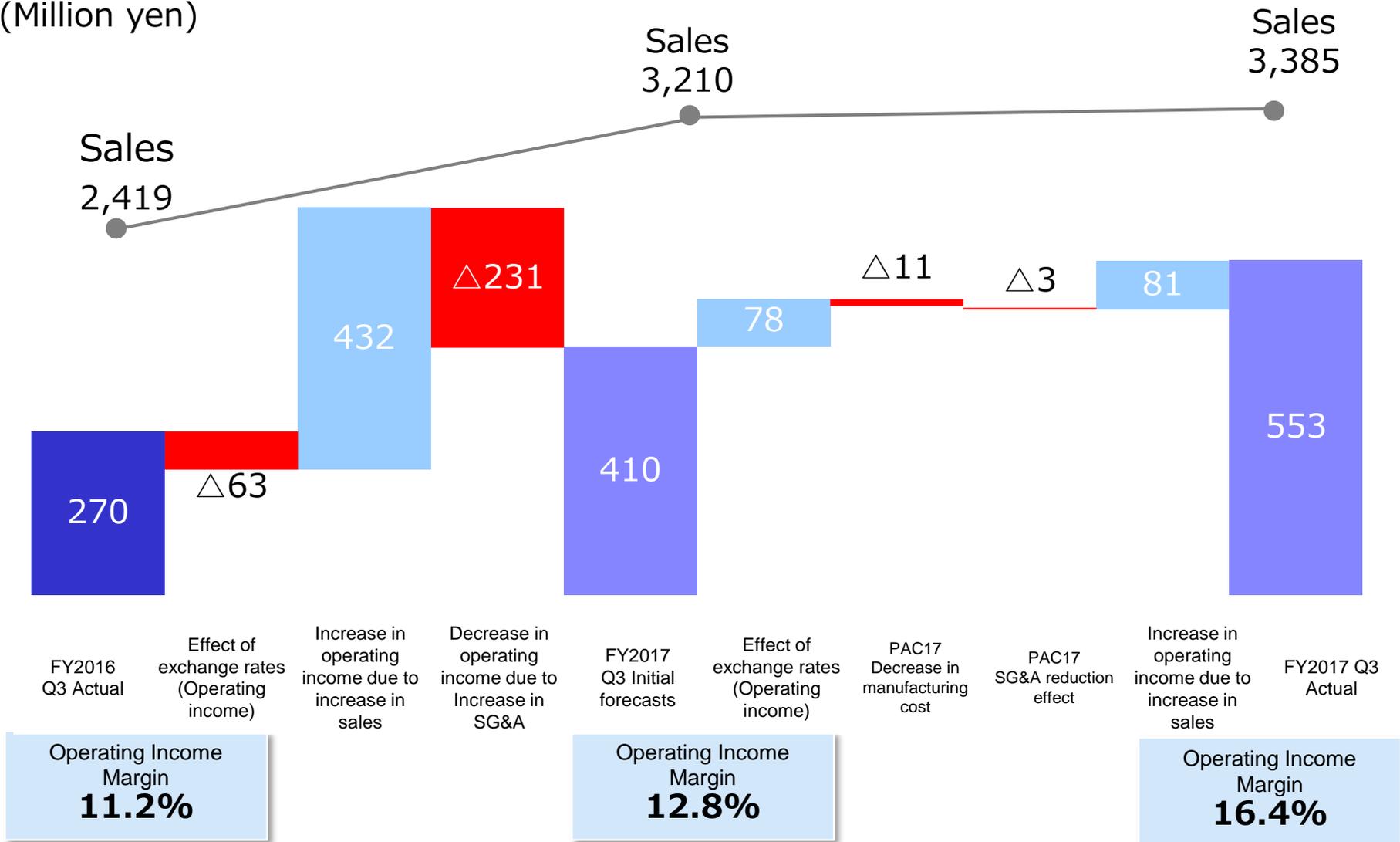


*The amount of consolidated adjustments is included in construction machinery filters (As per the standards for disclosing securities reports).

Changes in Operating Income (QTD)

- from FY2016Q3 to FY2017Q3

(Million yen)



1. Financial Highlights for the Third Quarter of the FY 2017 (Fiscal Year Ending March 2018)

② Business Results for the Third Quarter of the Fiscal Year Ending March 2018 (Apr.-Dec.)

FY2017 Q3 Financial Summary (YTD)

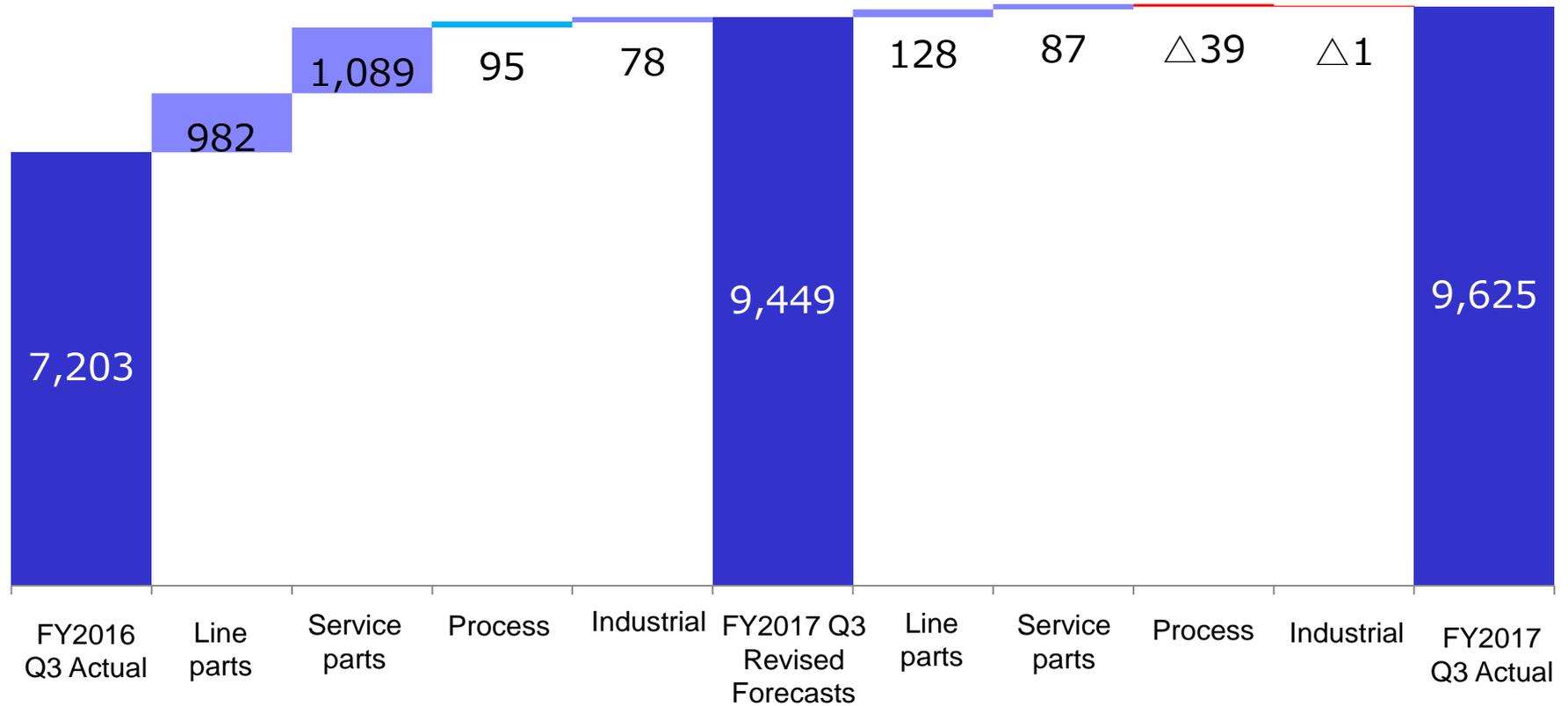
- YoY Comparison

(Million yen)	FY2016 Actual	FY2017 Actual	YoY change	
	Q3 Cumulative	Q3 Cumulative	Amount	%
Net sales	7,203	9,625	2,421	33.6%
Operating income	707	1,521	814	115.2%
Operating income margin	9.8%	15.8%	6.0P	-
Ordinary income	674	1,476	801	118.8%
Ordinary income margin	9.4%	15.3%	6.0P	-
Net income	471	976	505	107.2%
Net income margin	6.5%	10.1%	3.6P	-
Exchange rates AR				
USD	106.7	111.7	5.1	4.7%
EUR	118.1	128.5	10.5	8.9%

Changes in Sales (YTD)

- from FY2016Q3 to FY2017Q3

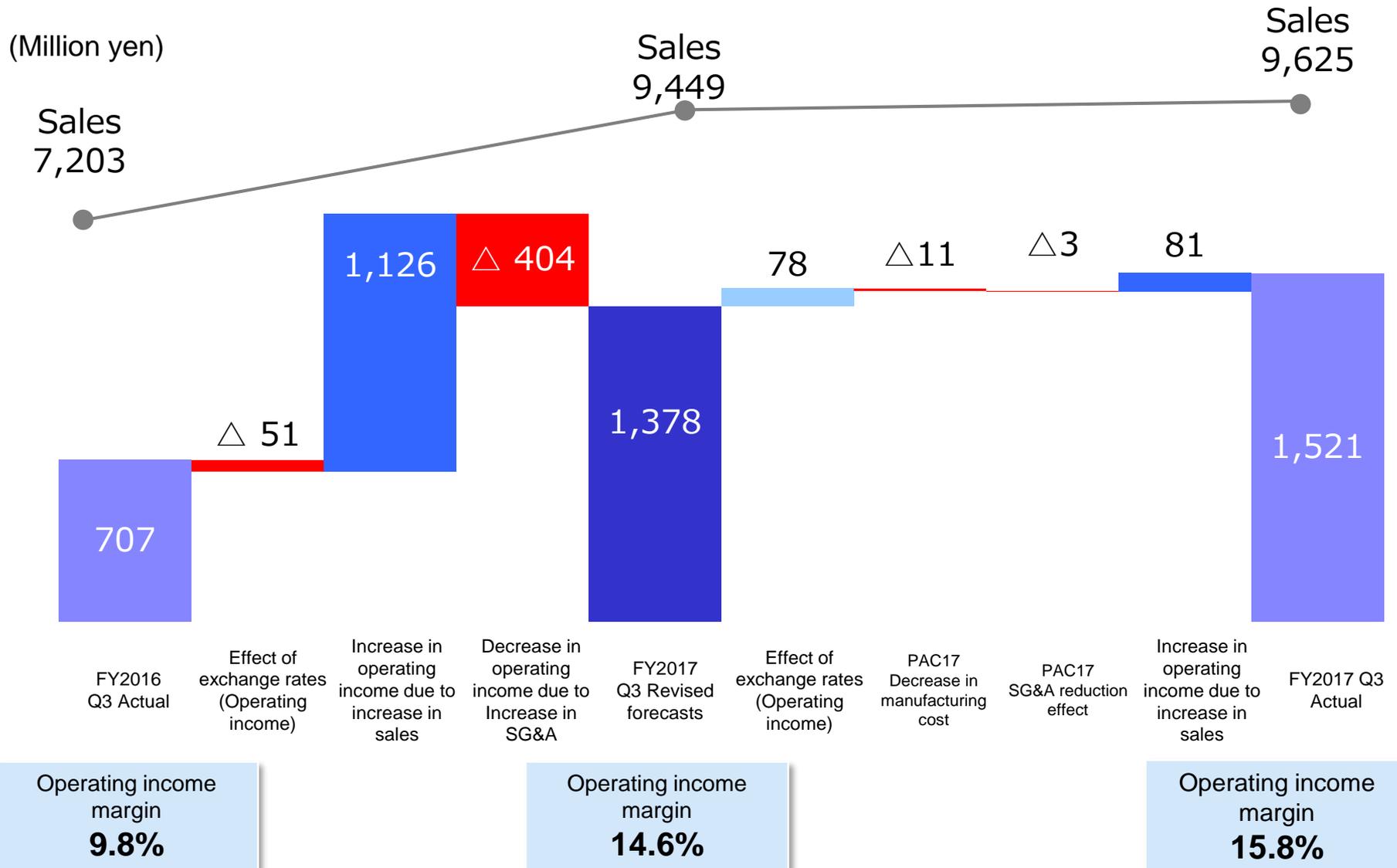
(Million yen)



*The amount of consolidated adjustments is included in construction machinery filters. (As per the standards for disclosing securities reports)

Changes in Operating Income (YTD)

- from FY2016Q3 to FY2017Q3



FY2017 Q3 Balance Sheet

- Comparison with Previous FY End

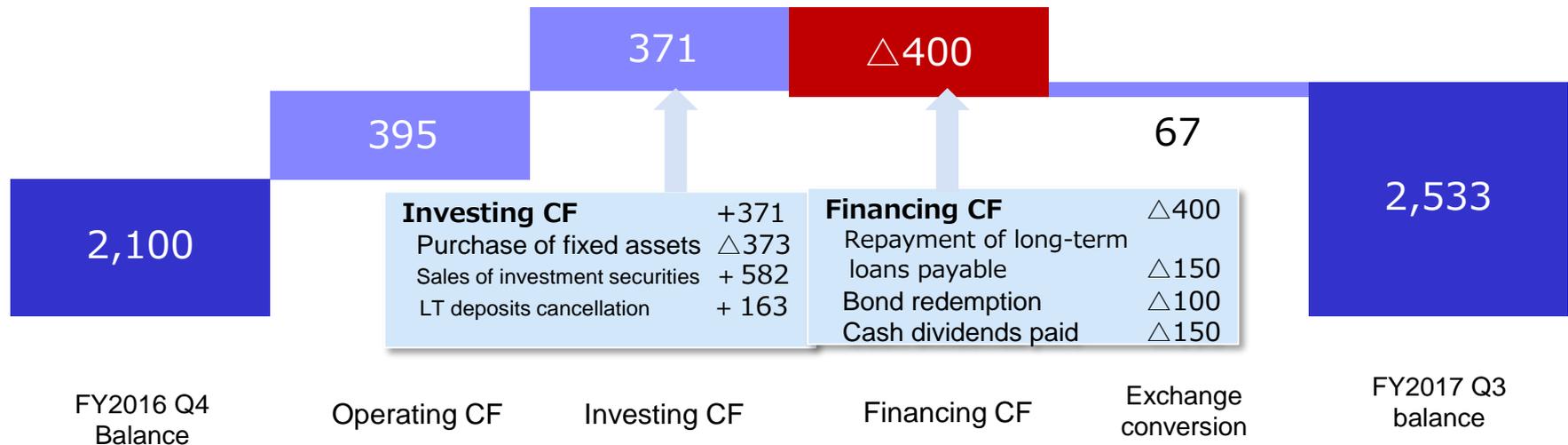
(Million yen)	End-FY2016	FY2017 Q3	Change in ratio
Current assets	6,695	8,002	19.5%
Cash and deposits	2,263	2,533	12.0%
Notes and accounts receivable-trade	2,480	3,189	28.5%
Merchandise and finished goods, Raw materials and supplies*	1,457	1,952	34.0%
Others	493	326	△33.9%
Fixed assets	3,462	3,343	△3.4%
Tangible fixed assets	1,272	1,398	9.9%
Intangible fixed assets	292	439	49.9%
Investments and other assets	1,897	1,506	△20.6%
Total assets	10,158	11,345	11.7%

*This has increased due to increased sales.

	End-FY2016	FY2017 Q3	Change in ratio
Current liabilities	2,374	2,892	21.8%
Notes and accounts payable-trade	1,085	1,597	47.1%
Short-term loans payable, Current portion of long-term loans payable and corporate bonds	500	500	-
Others	788	795	0.9%
Fixed liabilities	1,131	885	△21.8%
Corporate bonds	600	500	△16.7%
Long-term loans payable	150	-	△100.0%
Net defined benefits liability	173	168	△3.3%
Others	207	216	4.5%
Total net assets	6,652	7,568	13.8%
Total of liabilities and net assets	10,158	11,345	11.7%

*Shareholders' equity ratio 65.5% 66.7%

Changes in Cash Flow Balance - From Mar 2017 to Dec 2017



(Million yen)	FY2016	FY2017 Q3
	Total amount	Total amount
Cash flows from operating activities	952	395
Cash flows from investing activities	Δ 1,889	371
Free cash flows	Δ 936	603
Cash flows from financing activities	Δ 634	Δ 400
Effect of exchange rate change on cash and cash equivalents	Δ35	67
Changes in cash flows	Δ 1,605	270
Year-end balance of cash and cash equivalents	2,100	2,533

Conditions of Operational Hedge-Marry and Netting -YTD-

- 1-yen appreciation of the yen would increase operating income about 5.8 million yen.

Currency	Inflow			Outflow			Net	Average rate in the term (JPY)	In case of yen appreciation (10%)			In case of yen appreciation (10%)		
	Each currency	Yen equivalent (JPY)	Composition ratio	Each currency	Yen equivalent (JPY)	Composition ratio			Each currency	Average rate in the term ▲10% (JPY)	Rate difference	Affected amount (YTD)	Average rate in the term +10% (JPY)	Rate difference
JPY	¥12,100.0	¥12,100.0	72%	¥10,400.0	¥10,400.0	66%	¥1,700.0	-	-	-	-	-	-	-
USD	\$37.7	¥4,207.1	25%	\$37.4	¥4,173.6	27%	\$0.3	¥111.7	¥100.54	¥-11.17	¥-3.35	¥122.88	¥11.17	¥3.35
EUR	€ 2.8	¥354.8	2%	€ 1.9	¥249.4	2%	€ 0.8	¥128.5	¥115.68	¥-12.9	¥-10.54	¥141.39	¥12.85	¥10.54
PHP	PP0.0	¥0.0	0%	PP376.8	¥833.9	5%	PP-376.8	¥2.2	¥1.99	¥-0.2	¥83.39	¥2.43	¥0.22	¥-83.39
THB	฿55.77	¥185.8	1%	฿17.09	¥56.9	0%	฿38.68	¥3.3	¥3.00	¥-0.3	¥-12.89	¥3.67	¥0.33	¥12.89
Total	-	¥16,847.7	100%	-	¥15,713.8	100%	-	-	-	-	¥56.61	-	-	¥-56.61

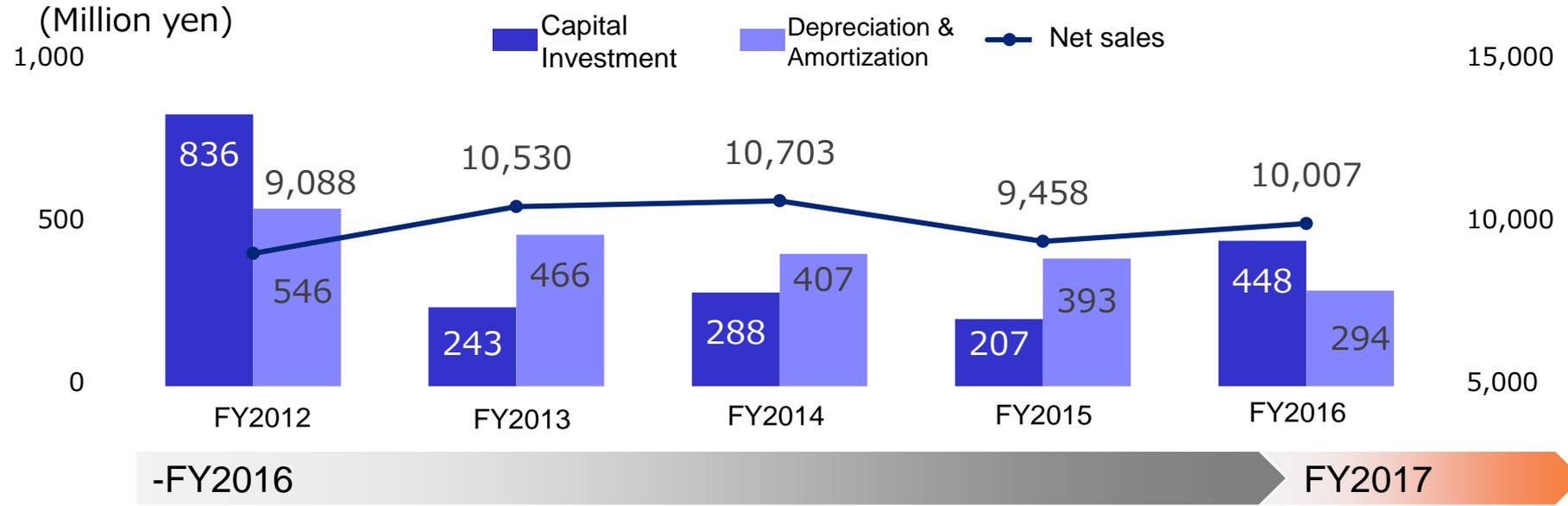
*The exchange rates used here are based on the average rates for the nine months from April to Dec.

YoY Changes in Capital Investment and Depreciation & Amortization



(Million yen)	FY2012 Consolidated	FY2013 Consolidated	FY2014 Consolidated	FY2015 Consolidated	FY2016 Consolidated	FY2017 Q3 Consolidated
Net sales	9,088	10,530	10,703	9,458	10,007	9,625
Capital investment	836	243	288	207	448	373
% of Net Sales	9.2%	2.3%	2.7%	2.2%	4.5%	3.9%
Depreciation and amortization	546	466	407	393	294	210
% of Net Sales	6.0%	4.4%	3.8%	4.2%	2.9%	2.2%

Net sales, capital investment, and depreciation & amortization (previous term and current term)



2. FY2017 Full-year Business Forecasts

Pathway to accelerate growth through 10 billion yen fundraising

As the Chinese market is favorable, we will develop a business foundation for further growth. 10 billion yen acquired by third-party allocation of shares is appropriated for “the offensive growth” and “defensive growth” in a timely manner.



3 billion yen



3 billion yen



4 billion yen

FY2017 Full-year Business Forecasts

- Comparison with Previous Fiscal Year

- Full-year forecast (No revision from the forecast announced on November 6, 2017)

(Million yen)	FY2016 Actual	FY2017 Initial Forecasts	FY2017 Revised forecasts	Vs. Previous results
	Amount	Amount	Amount	%
Net sales	10,007	11,090	12,500	26.7%
Operating income	957	980	1,750	97.7%
Operating income margin	9.6%	8.8%	14.0%	5.4P
Ordinary income	934	969	1,720	97.9%
Ordinary income margin	9.3%	8.7%	13.8%	5.3P
Net income	640	659	1,180	96.8%
Net income margin	6.4%	6.0%	9.4%	3.5P
Exchange rates AR				
USD	108.4	115.0	115.0	6.1%
EUR	118.8	120.0	120.0	1.0%

(Ref.) Forecasts for Segment Information (by product)

(Amount: Million yen/ Quantity: Thousand)	FY2016 Actual		FY2017 Forecasts		Change	
	Amount	Compo- sition ratio (%)	Amount	Compo- sition ratio (%)	Amount	Change in ratio (%)
Construction machinery filters	8,705	87.0%	10,964	87.7%	2,259	26.0%
Line parts	3,825	38.2%	4,796	38.4%	971	25.4%
Service parts	4,879	48.8%	6,167	49.3%	1,288	26.4%
Industrial filters	475	4.8%	556	4.5%	81	17.1%
Process filters	826	8.3%	978	7.8%	151	18.4%
Total	10,007	100.0%	12,500	100.0%	2,492	24.9%

(Ref.) Forecasts for Quarterly Business Results (by region)

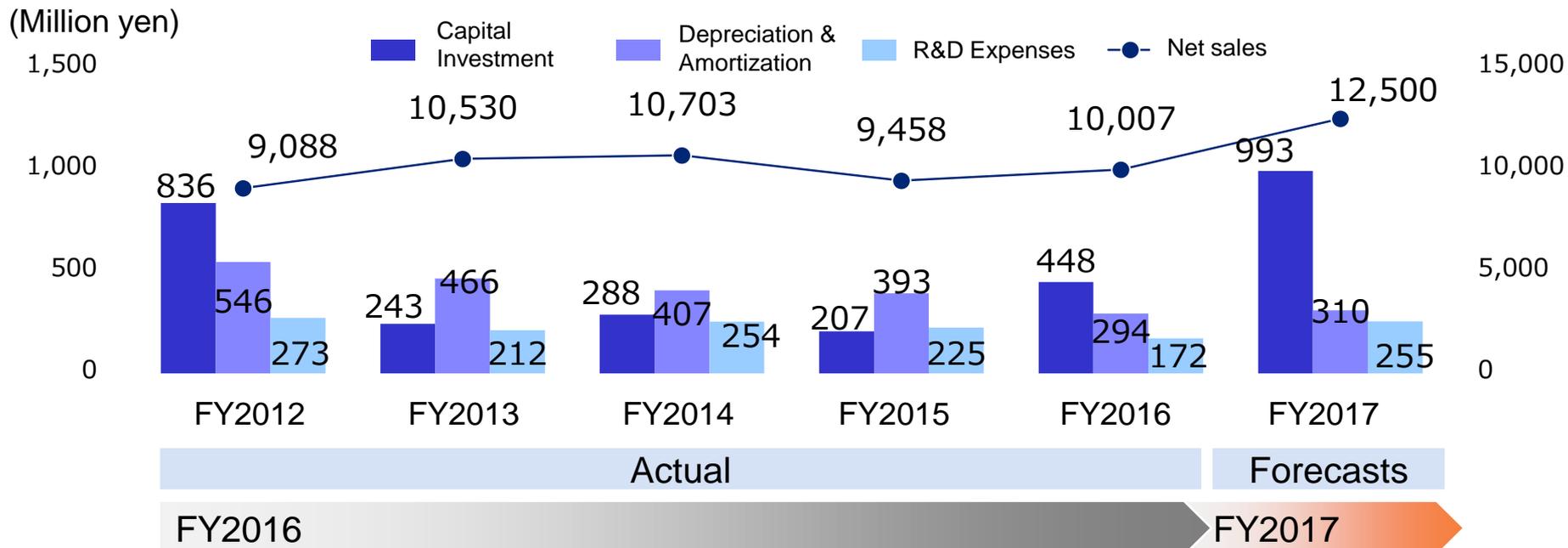
(Amount: Million yen/ Quantity: Thousand)	FY2016 Actual		FY2017 Forecasts		Change	
	Amount	Compo- sition ratio (%)	Amount	Compo- sition ratio (%)	Amount	Change in ratio (%)
Japan	5,198	51.9%	6,219	49.8%	1,020	19.6%
North America	1,712	17.1%	2,158	17.3%	445	26.0%
China	948	9.5%	1,414	11.3%	466	49.2%
Asia	1,174	11.7%	1,592	12.7%	417	35.6%
Europe/others	973	9.7%	1,115	8.9%	141	5.7%
Total	10,007	100.0%	12,500	100.0%	2,492	24.9%

*Sales by region are calculated based on the locations of corporations to which we send invoices.

(Ref.) Changes in Capital Investment, Depreciation & Amortization, and R&D Expenses

(Million yen)	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
	Actual	Actual	Actual	Actual	Actual	Full-year forecasts
Net sales	9,088	10,530	10,703	9,458	10,007	12,500
Capital investment	836	243	288	207	448	993
Composition ratio (%)	9.2%	2.3%	2.7%	2.2%	4.5%	7.9%
Depreciation and amortization	546	466	407	393	294	310
Composition ratio (%)	6.0%	4.4%	3.8%	4.2%	2.9%	2.5%
R&D expenses	273	212	254	225	172	255
Composition ratio (%)	3.0%	2.0%	2.4%	2.4%	1.7%	2.0%

Net sales, capital investment and depreciation & amortization (previous term and current term)



Efforts to increase sales

-The start of proposal-based sales promotions; in an effort to promote adoption of our filter products into new models



Sales Growth Rate: New Product Development, Enhancement of Genuine Products' Market Share

		Policy's Keywords	Results' Evaluation
Construction machinery filters	Line parts	Propose failure prediction feature and ICT technology	Collect actual machine's product data (currently in progress)
	Service parts	Propose efficiency improvement efforts	Actual machine's test
		Expand sales to construction machinery manufacturers in China	Consider M&A with construction machinery manufacturers in China
		Retake market share from non-genuine products (i.e. imitations) market by holding seminars	Continue marketing activities that are tailored to the characteristics of Chinese markets and other geographic areas. Entry into Korean and Southeast Asia (Myanmar)'s second-hand construction machinery market.
Industrial filters		Strengthen cooperation with partners	Continue cooperation with partners; reduce the cost of existing products M&A Plan
Process filters		Diversify product series	Start the development of product lineup expansion Planning of M&A and OEM business

Endeavor to Enter New Markets

- Sensor for monitoring cleanliness of hydraulic and lubrication oils
- We will explore new application fields for new materials

SWIFT ROCK™



SWIFTROCK™
Standard type



SWIFTROCK™
Inexpensive version

Chinese market and our medium-term policy

- **Evolution to a more robust corporate structure and expansion of our business portfolio**



Main Objective

As the Chinese market is expected to be strong for the coming 5 years, we aim to develop a firm business foundation in this period

Construction Machinery + α

Establish at least two pillars of source of income other than construction machinery hydraulic filters

Develop new materials
Cultivate new business fields,
through M&A /business alliances

Competent On-site Performance

Redevelop our supply chains considering cost and operation effectiveness referring to business continuity plans (**BCPs**)

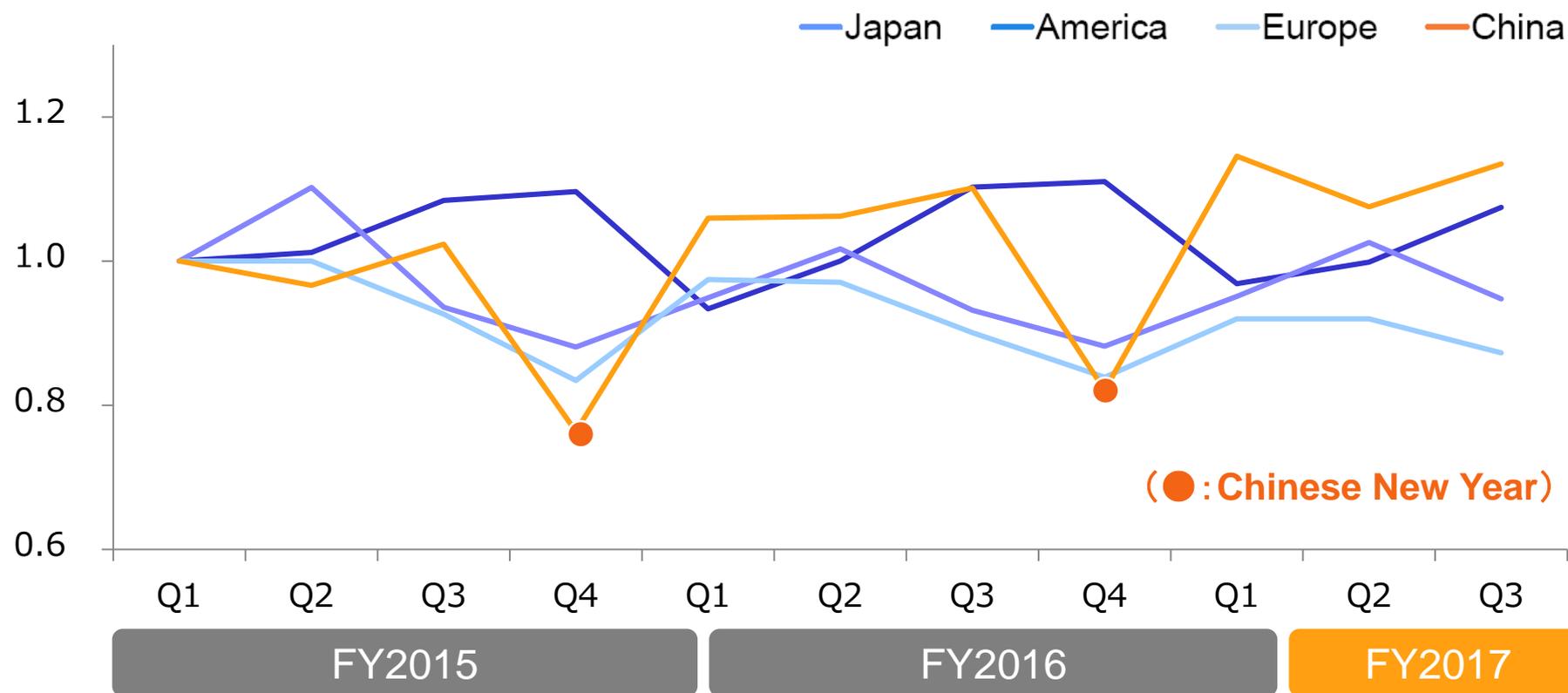
Develop a more robust corporate structure with MAVY's and PAC17
Large-scale investment plans for R&D facilities
Investment for building production sites in major markets

Business Environment ①

Construction Machinery Operation Hours

The expansion of infrastructure investment in response to the Chinese government's "One Belt, One Road" initiative is estimated to spur the demand for construction machinery again

(Quarterly changes are shown in the graph below with the value of the quarter from Apr. to Jun. 2015 being set to 1.0 for indexation purposes)

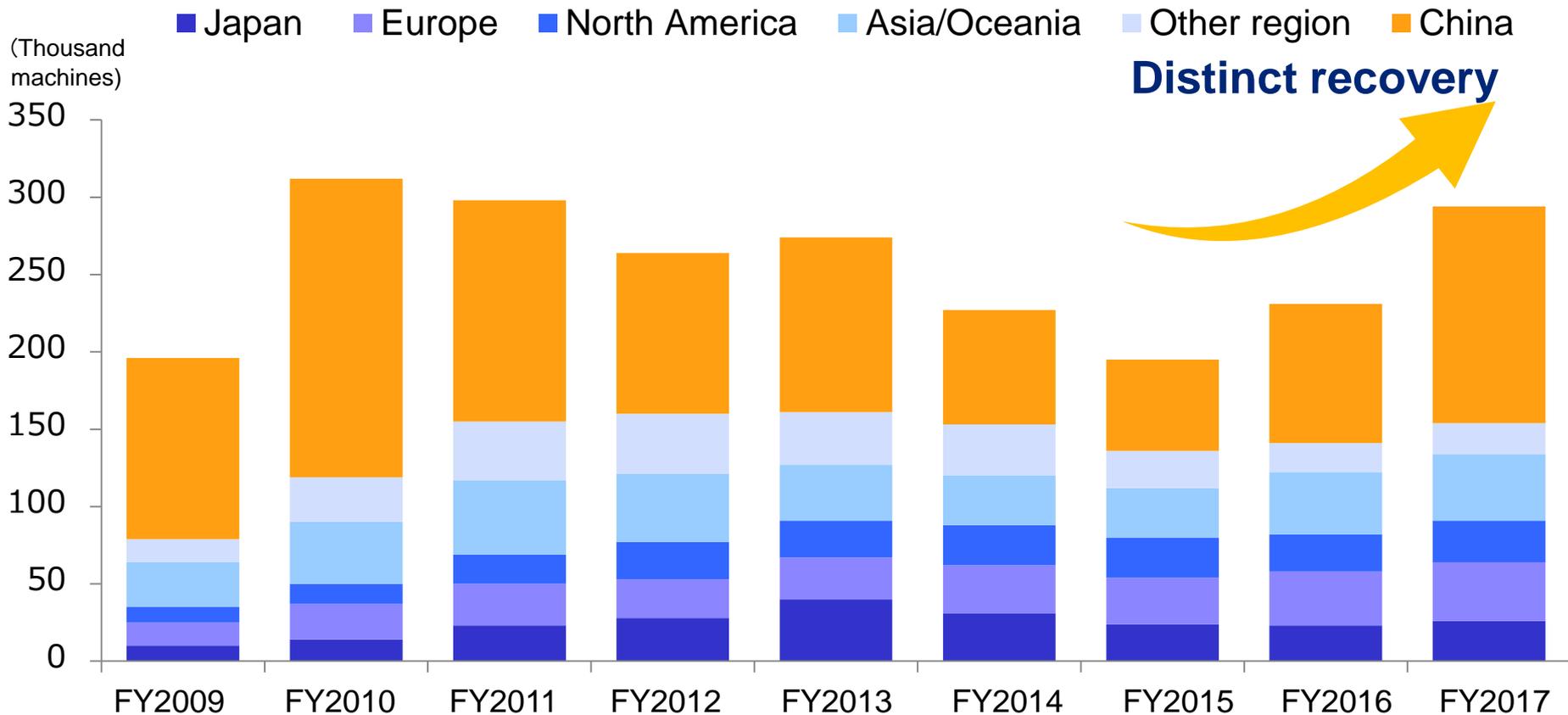


(Reference) Prepared by YAMASHIN-FILTER based on the Nomura Securities analyst report

Business Environment ②

Demand for New Excavators

- The Chinese construction machinery market is expected to keep recovering due to government/public works, etc.



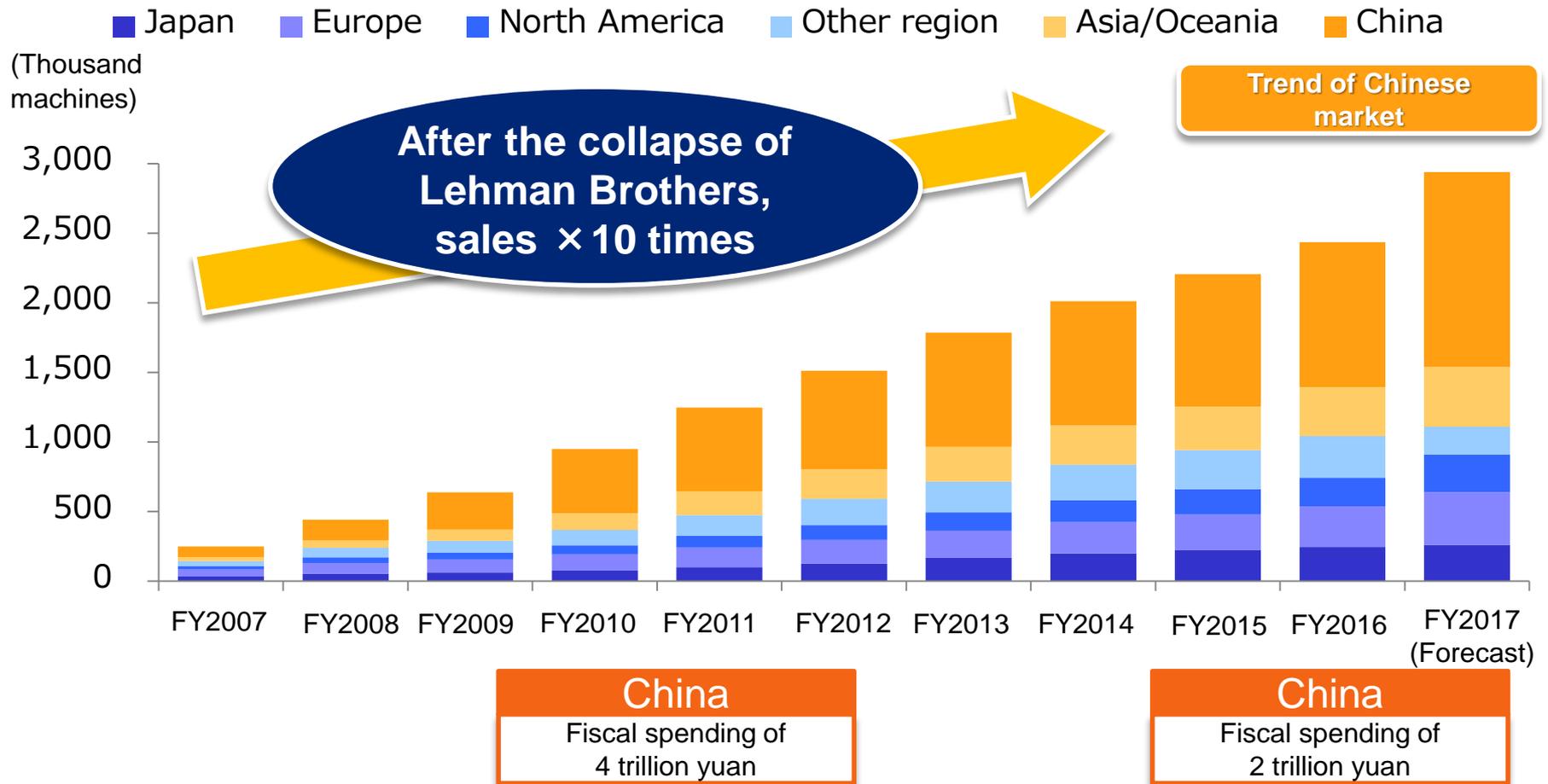
*Figures are estimated by YAMASHIN-FILTER based on data from construction machinery manufacturers and industry associations

Forecast

Business Environment ③

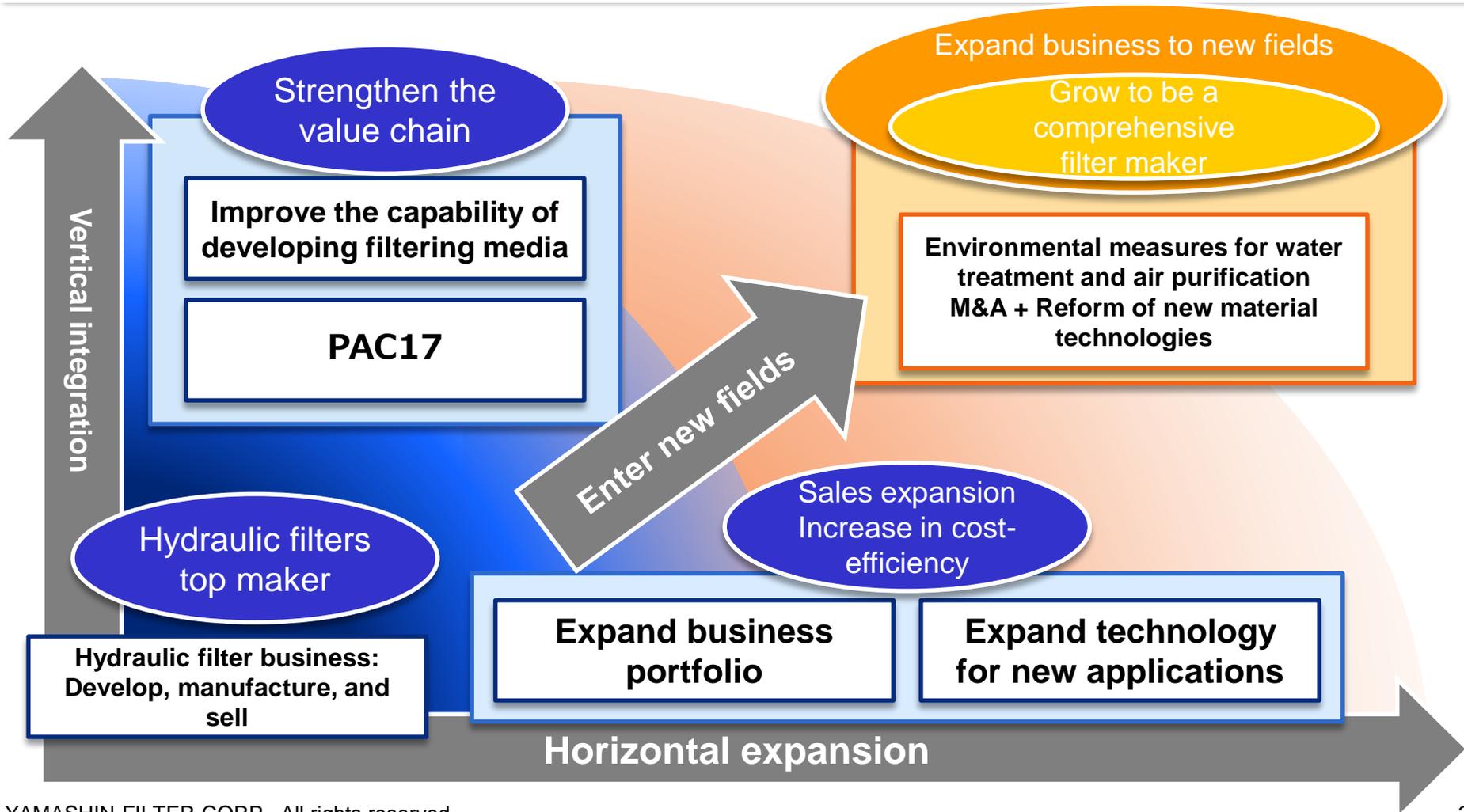
Cumulative Number of New Machinery Sales

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



Path to Further Growth

- While expanding the business fields using our existing technologies, we aim to develop our business in the industry, process, and air fields
- Acquire new technologies and enter into new business fields by forming alliances and M&A



FY2017 Q3 Actual Results

- The market environment is as expected
- We will pay attention to the trend of exchange rates and the effects of Chinese New Year on sales in predicting our full-year business forecasts

FY2017 Full-year Forecasts

- We will start proposal-based sales promotions; in an effort to promote adoption of our filter products into new models

Business Portfolio's Expansion

- We aim to achieve the evolution to a more robust corporate structure and expansion of our business portfolio

Reference Materials



Financial Statements Glossary

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**”

Sales methods, regional trends, and cost reduction measures

- **Sales format**
 - ◆ The filters for construction machinery are sold to construction machinery makers (100%). In principle, we do not sell the products to end users directly
- **Regional trends**
 - ◆ Sales are calculated based on the destinations of our invoices, and so our data may differ from the actual regional market trends
- **PAC17 (Promptly Activated Cost reduction 2017)**
 - ◆ The company-wide cost reduction project

- To share target figures for improving our corporate value not only in the management department, but also on other operating sites

What is MAVY's? (ROIC – WACC = EVA)

Maximizing **A**dded **V**alue of **Y**amashin Filter **S**pread

A key goal indicator (KGI) used by each relevant department to set a KPI and work on tasks (KSF) with the aim of maximizing return on invested capital



Meet the expectations from stakeholders by expanding MAVY's (EVA) spread



Assign KPI indicators to relevant departments who are responsible for target setting, implementing company-wide business operation and achieving target

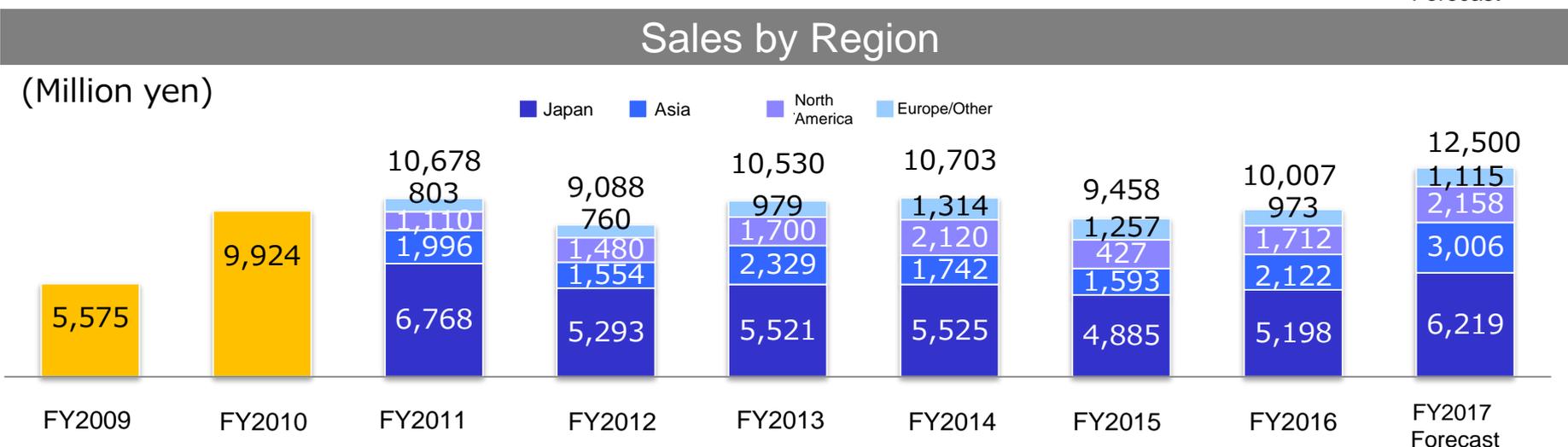
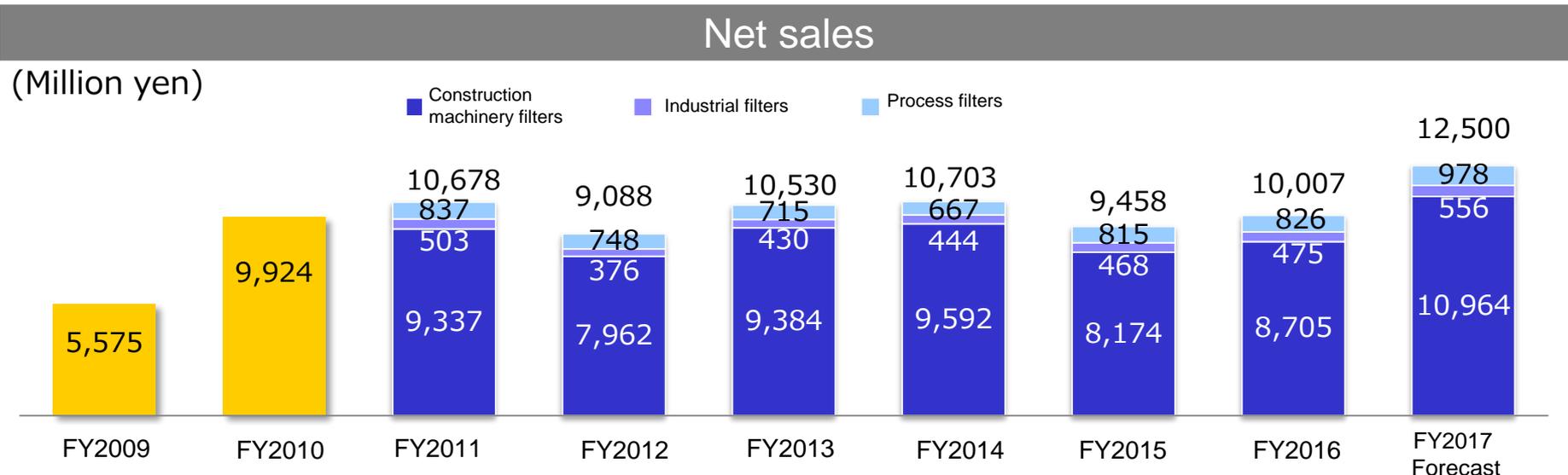
Breakdown of MAVY's: Supplementary Info

Term	Formula
MAVY's	ROIC - WACC
ROIC	$\text{NOPAT} \div \text{Capital investment}$
Rate of return on capital investment	$(\text{Ordinary income} + \text{Interests paid}) \div \text{Capital investment}$
Turnover rate of working capital	$\text{Net sales} \div (\text{Accounts receivable} + \text{Inventory asset} - \text{Accounts payable})$
Turnover rate of fixed assets	$\text{Net sales} \div \text{Fixed assets}$
Turnover rate of accounts receivable	$\text{Net sales} \div \text{Accounts receivable}$
Turnover rate of inventory asset	$\text{Net sales} \div \text{Inventory asset}$
Turnover rate of accounts payable	$\text{Sales cost} \div \text{Accounts payable}$
Turnover rate of tangible fixed assets	$\text{Net sales} \div \text{Tangible fixed assets}$
Turnover rate of intangible fixed assets	$\text{Net sales} \div \text{Intangible fixed assets}$

*The figures in the quarterly profit and loss statement are annualized.

*The figures in the balance sheet are the averages of the initial and term-end figures.

Financial Highlights ①



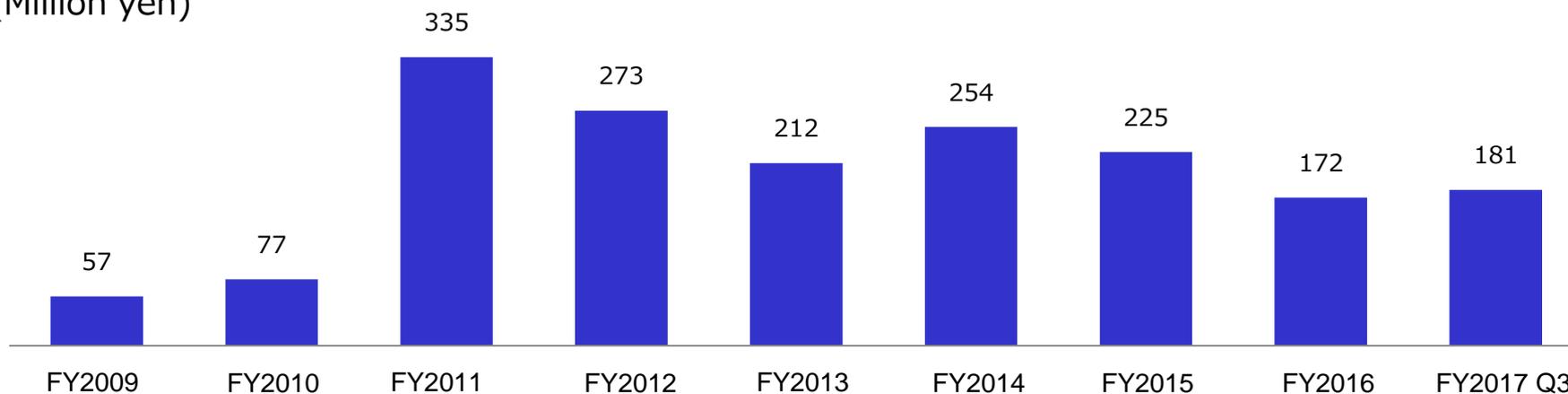
*Non-consolidated until FY2011, consolidated after FY2012.

*The breakdown of the amount of FY2014 has been altered due to the change in the method for calculating sales by region.

Financial Highlights ②

R&D Expenses

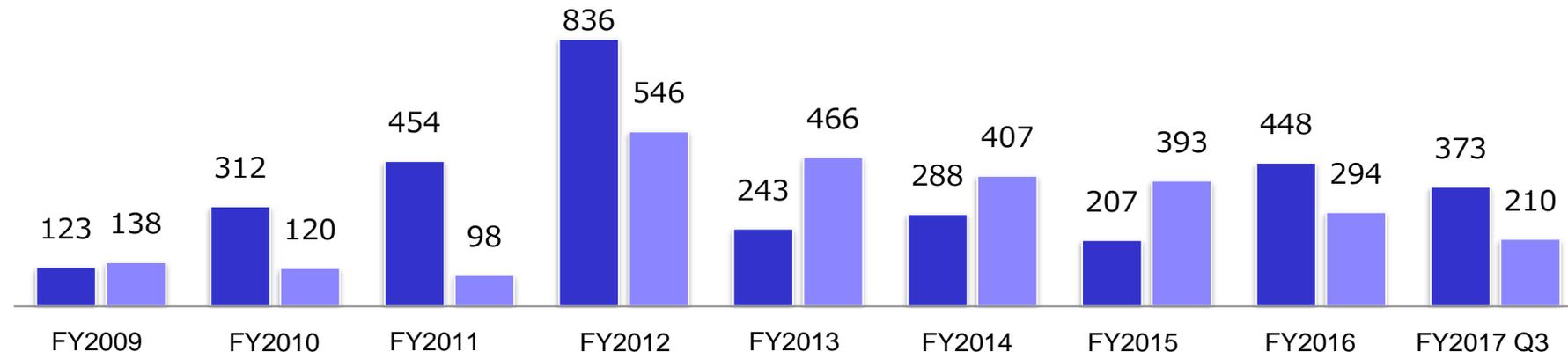
(Million yen)



Capital Investment and Depreciation & Amortization

(Million yen)

■ Capital Investment ■ Depreciation & Amortization

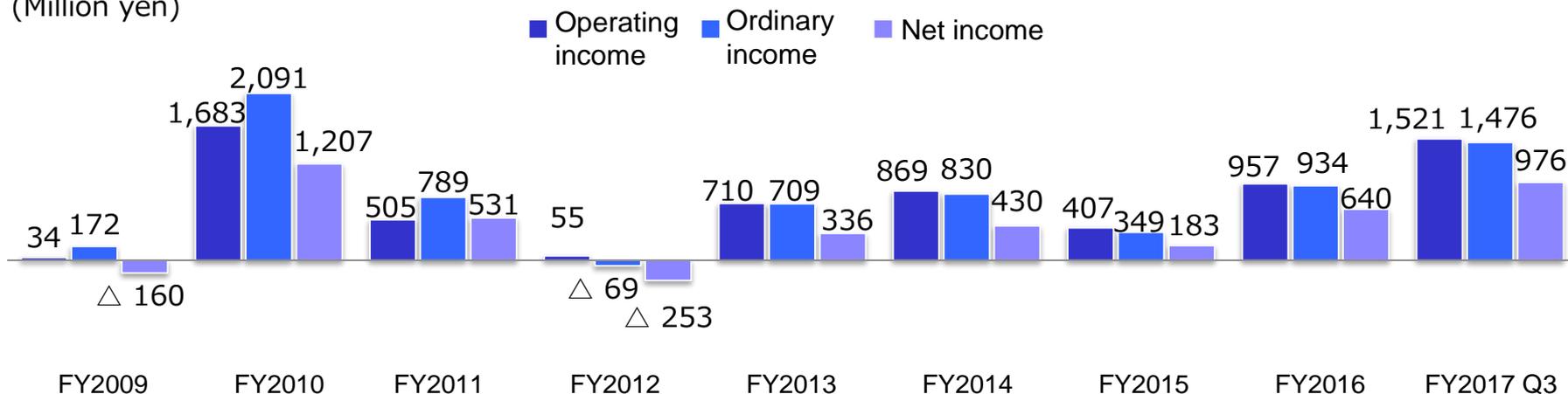


*Non-consolidated until FY2011, consolidated after FY2012.

Financial Highlights ③

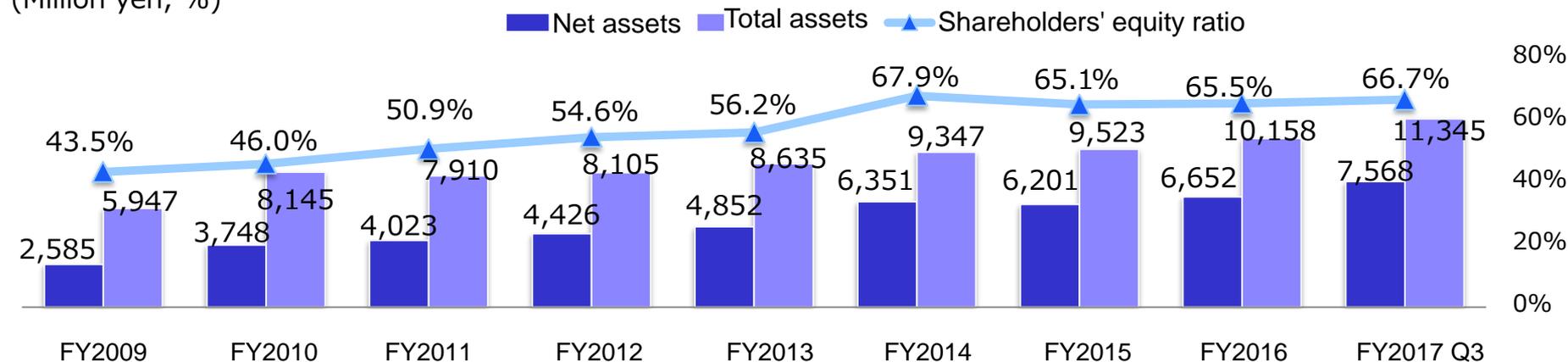
Profits

(Million yen)



Net assets, total assets and shareholders' equity ratio

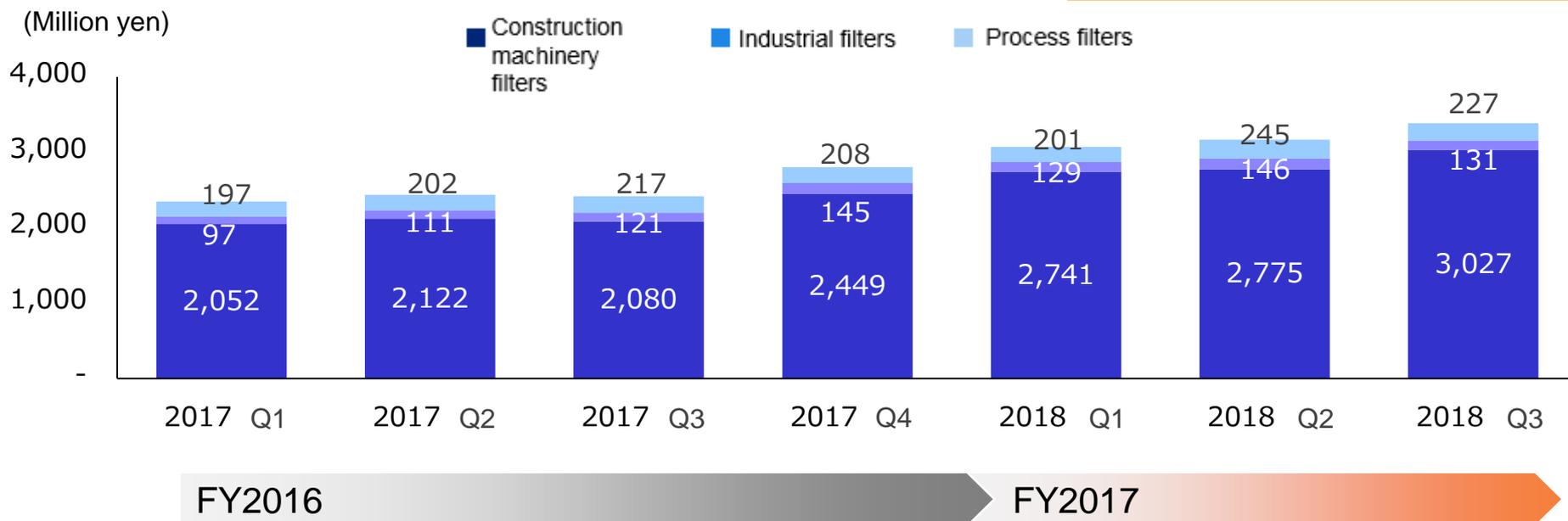
(Million yen, %)



*Non-consolidated until FY2011, consolidated after FY2012.

Quarterly Changes in Sales by Industrial Fields (QTD)

(Million yen)	FY2016				FY2017		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Construction machinery filters	2,052	2,122	2,080	2,449	2,741	2,775	3,027
Industrial filters	97	111	121	145	129	146	131
Process filters	197	202	217	208	201	245	227
Total	2,347	2,436	2,419	2,803	3,072	3,166	3,385

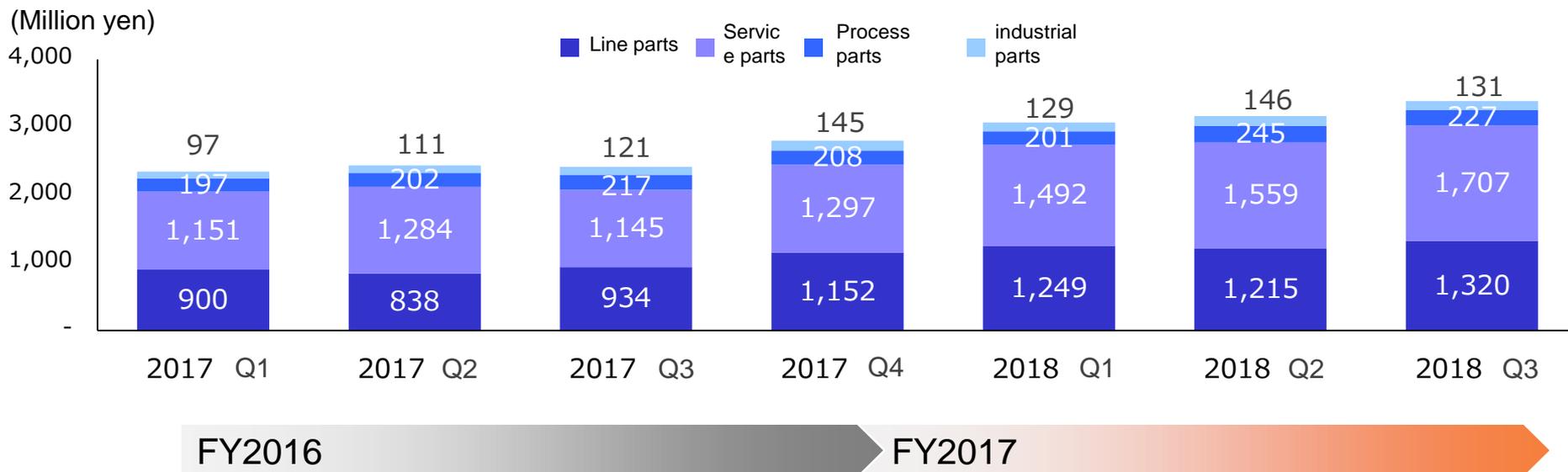


*The amount of consolidated adjustments is included in construction machinery filters. (Standards for disclosing securities reports)

Quarterly Changes in Sales by Product Types (QTD)



(Million yen)	FY2016				FY2017		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Construction machinery filters	2,052	2,122	2,080	2,449	2,741	2,775	3,027
Line parts	900	838	934	1,152	1,249	1,215	1,320
Service parts	1,151	1,284	1,145	1,297	1,492	1,559	1,707
Industrial/Process filters	295	313	339	354	331	391	358
Total	2,347	2,436	2,419	2,803	3,072	3,166	3,385



*Sales by region are calculated based on the invoices' destinations.

*Others: including sales in other areas.

Shareholders' Return

- Annual dividend will be increased to 16 yen per share, including interim dividend of 7 yen and year-end dividend of 9 yen per share

	FY2015	FY2016	FY2017 (Forecasts)
Dividend per share	10 yen	12 yen	16 yen
DOE	2.0%	2.3%	2.8%
Total return ratio	74.1%	25.6%	19.8%

*The figures for FY2017 are current estimated values.

*The Company will conduct a 5-for-1 stock split that will become effective on December 1, 2017.

*Dividend for FY2017 is based on shares before the split. Year-end dividend: 9 yen (After split: 1.8 yen)

*Funds raised by issuing 4th subscription rights to shares via third-party allocation, which was announced on December 26, 2017, are not included in the above table.

*Total return ratio = (Total dividend + Treasury stock acquired + Shareholder benefit) ÷ Net income

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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