

YAMASHIN-FILTER CORP.

Financial Results for the Fiscal Year Ended March 2017

**Strengthen development capabilities and optimize
production system to cope with Chinese market's
recovery and increase in US's investment in
infrastructure**

**May 22, 2017
(Stock code:6240)**



I

FY2016 Actual Results

Distinct recovery of the Chinese market

II

FY2017 Full-year Forecasts

Persistent efforts in optimizing production system

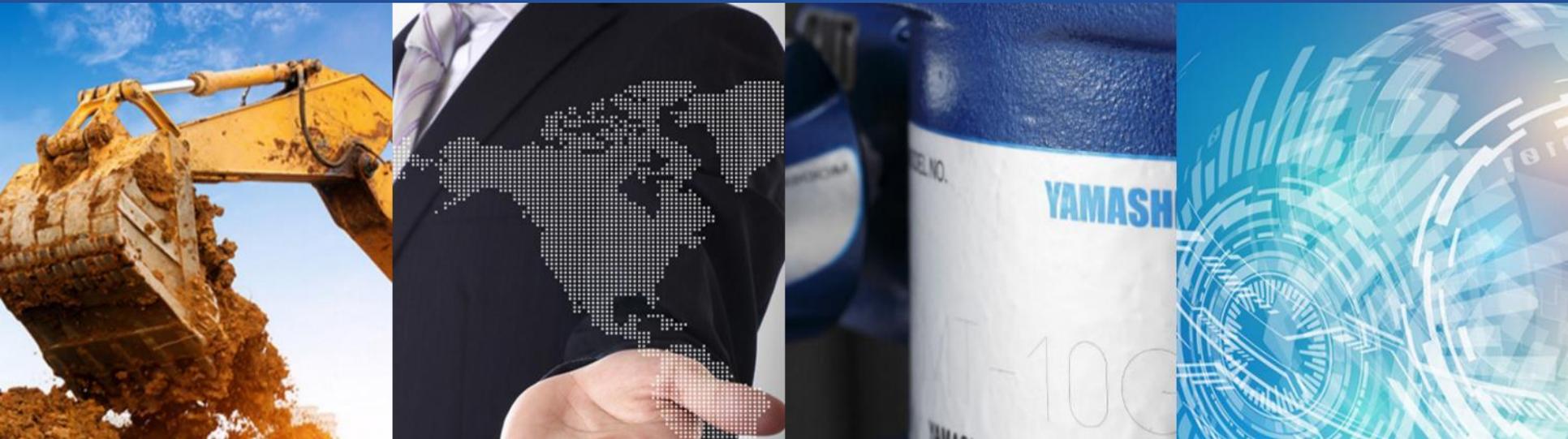
III

Business Portfolio's Expansion

Establish foundation for the next-generation's innovation

I . FY2016 Actual Results

Distinct Recovery of the Chinese Market



FY2016 Actual Results (FY2015 - FY2016)

- As the Chinese market recovered, we achieved sales growth and significant increase in YoY profits

		FY2015	FY2016	FY2016	YoY Change	
		Actual	Initial Plan (May 13, 2016)	Actual	Amount	%
(Million yen)						
Net Sales		9,458	8,670	10,007	548	5.8%
Operating Income		407	344	957	550	135.2%
Net Income		183	181	640	456	247.9%
Exchange Rate	USD	120.1	120.0	108.4	△ 11.7	△9.8%
	EUR	132.6	130.0	118.8	△ 13.8	△10.4%

*The initial plan was revised twice on November 4, 2016 and February 3, 2017.

* The actual exchange rates were based on the average value during the period

Sales by Product

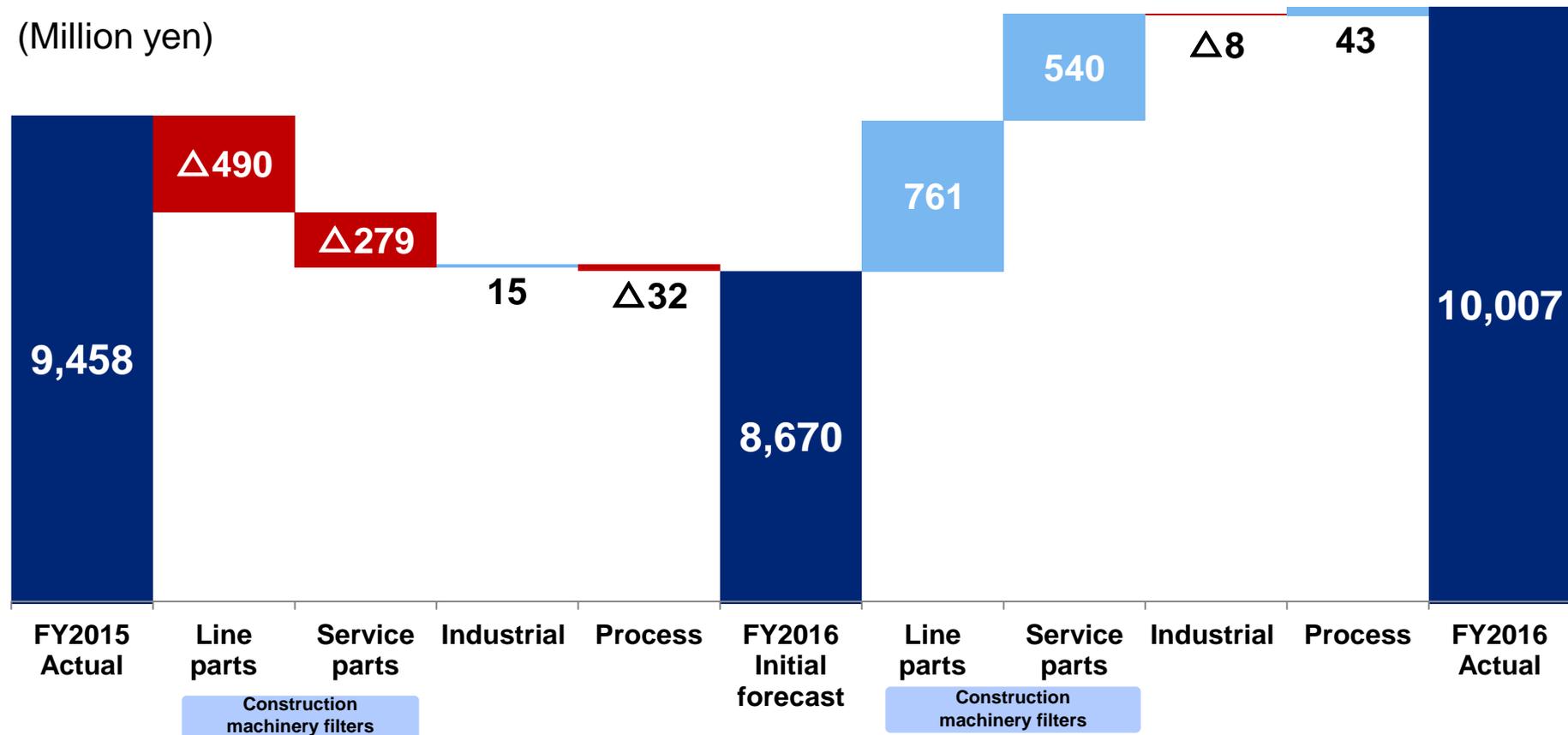
- During the first half, service parts sales bottomed out as the Chinese market recovered
- During the second half, service parts sales recovered and the line parts sales increased as a result of an increase in Chinese government's investment

	FY2015	FY2016	FY2016	YoY Change	
	Actual	Initial forecast (May 13, 2016)	Actual	Amount	%
(Million yen)					
Construction Machinery	8,174	7,403	8,705	530	6.5%
Filters					
Line Parts	3,553	3,062	3,825	272	7.7%
Service Parts	4,620	4,340	4,879	258	5.6%
Industrial Filters	468	483	475	7	1.5%
Process Filters	815	783	826	10	1.3%
Total of Sales	9,458	8,670	10,007	548	5.8%

Changes in Sales

- During the first half, service parts sales have bottomed out as the Chinese market recovered
- During the second half, service parts sales recovered and the line parts sales increased as a result of an increase in Chinese government's investment

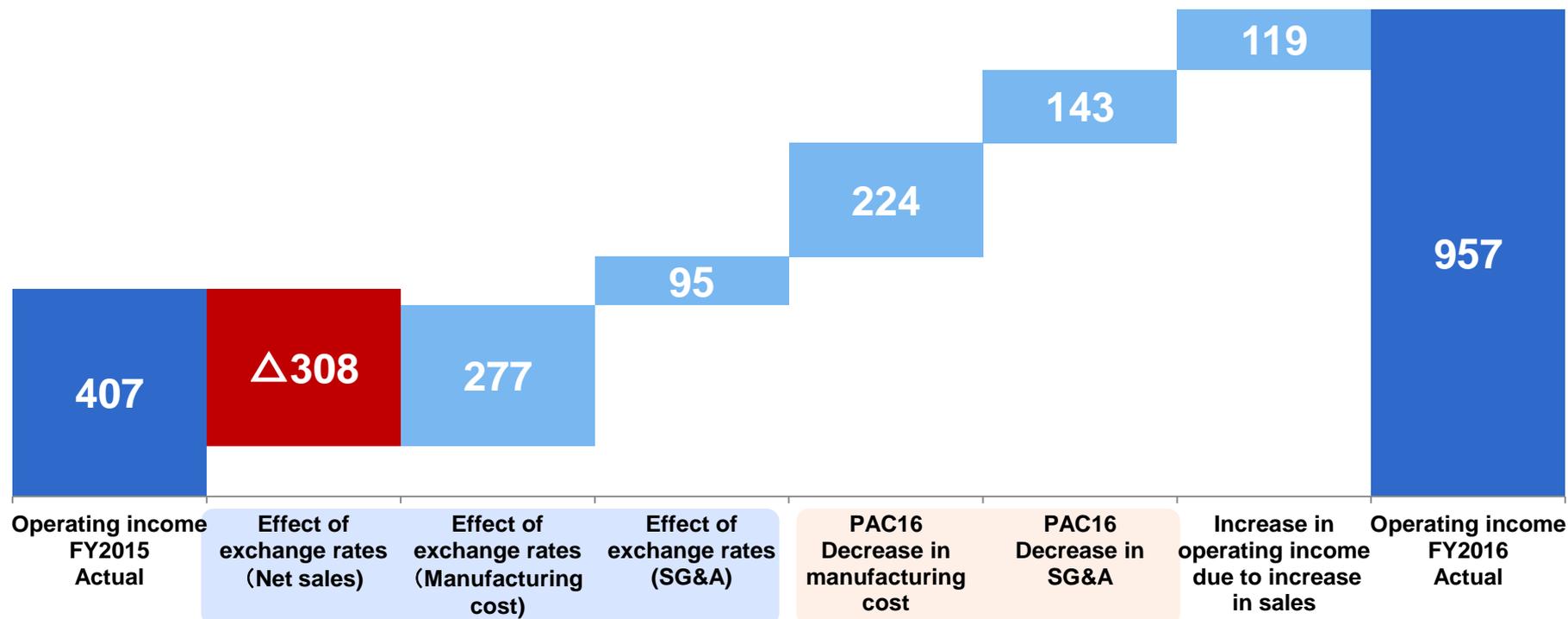
(Million yen)



Changes in Operating Income

- The impact of foreign exchange on operating income remains minimal
- Significant increase in profits has been achieved as a result of PAC16 effort

(Million yen)



PAC 16 Project's Initiatives

- Improved profit structure through cost reduction efforts

PAC16 **P**romptly **A**ctive **C**ost reduction 20**16**

Background	Area	Action Plan	Reduction Target/Achievement
Market slowdown Lower Sales	Production cost	Improve production efficiency Strengthen supply chain system	Target: ±¥180 million Achievement: ±¥220 million
	SG&A	Reduce operating expenses and administrative expenses	Target: ±¥120 million Achievement: ±¥140 million

Balance Sheet

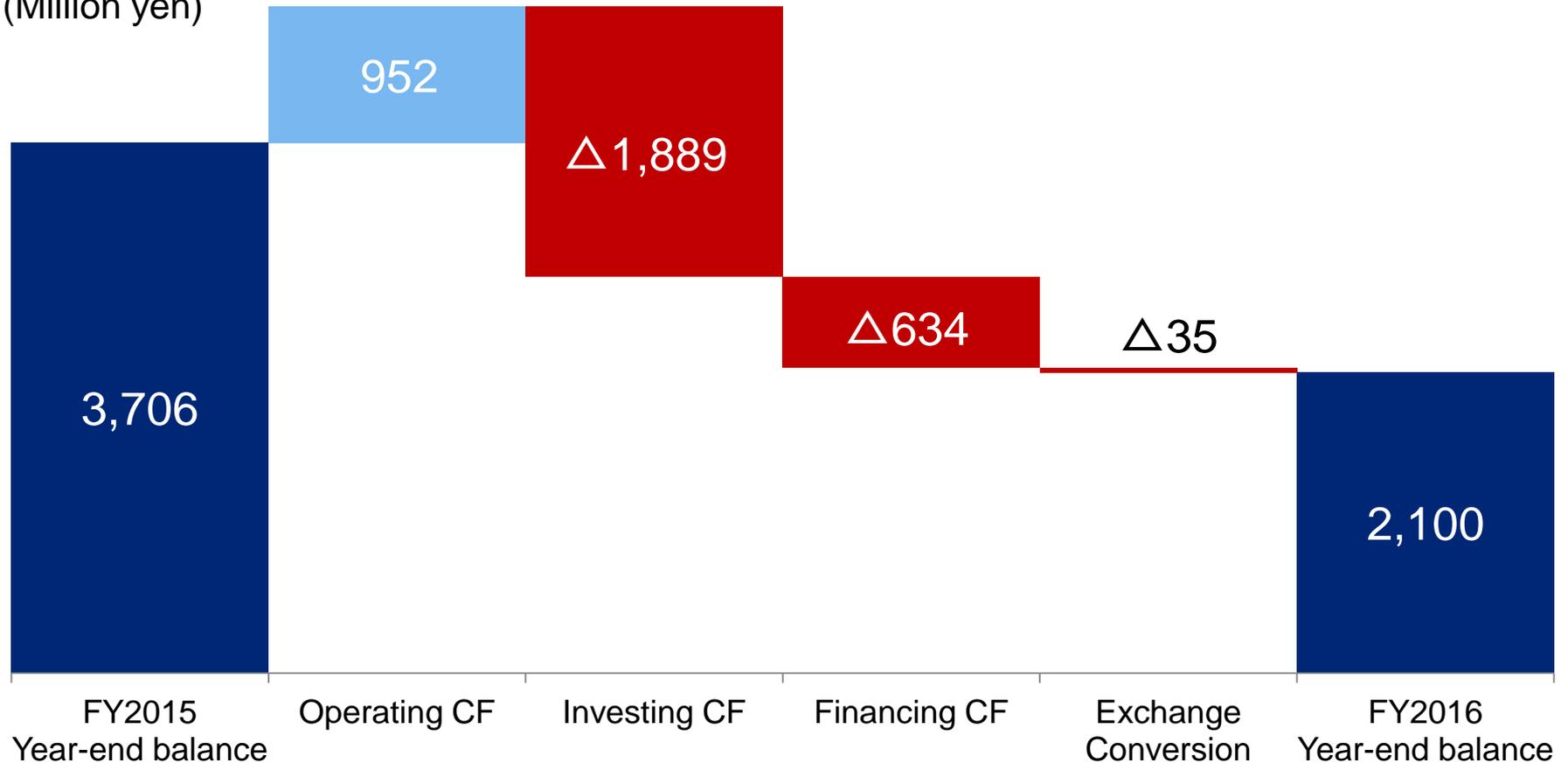
● Return on assets increased (FY2015: 3.7% → FY2016: 9.5%)

(Million yen)	End-FY2015	End-FY2016	Change	Change in ratio		End-FY2015	End-FY2016	Change	Change in ratio
Current assets	7,604	6,695	△ 909	△ 12.0%	Current liabilities	1,704	2,374	669	39.3%
Cash and deposits	3,806	2,263	△ 1,542	△ 40.5%	Notes and accounts payable-trade	796	1,085	289	36.4%
Notes and accounts receivable-trade	1,880	2,480	600	31.9%	Short-term loans payable, Current portion of long-term loans payable and corporate bonds	500	500	-	-
Merchandise and finished goods, Raw materials and supplies	1,465	1,457	△ 7	△ 0.5%	Others	407	788	380	93.2%
Others	452	493	41	9.1%	Fixed liabilities	1,617	1,131	△ 486	△ 30.1%
Fixed assets	1,919	3,462	1,543	80.4%	Corporate bonds	800	600	△ 200	△ 25.0%
Tangible fixed assets	1,322	1,272	△ 50	△ 3.8%	Long-term loans payable	450	150	△ 300	△ 66.7%
Intangible fixed assets	97	292	195	200.2%	Net defined benefits liability	164	173	9	5.8%
Investments and other assets	499	1,897	1,398	280.2%	Others	203	207	3	2.0%
Total assets	9,523	10,158	634	6.7%	Total net assets	6,201	6,652	450	7.3%
					Total of liabilities and net assets	9,523	10,158	634	6.7%
					*Shareholders' equity ratio	65.1%	65.5%		

Changes in Cash Flows

- CF from investing activities fell to negative 1,889 million yen due to acquisition of fixed assets, etc.

(Million yen)



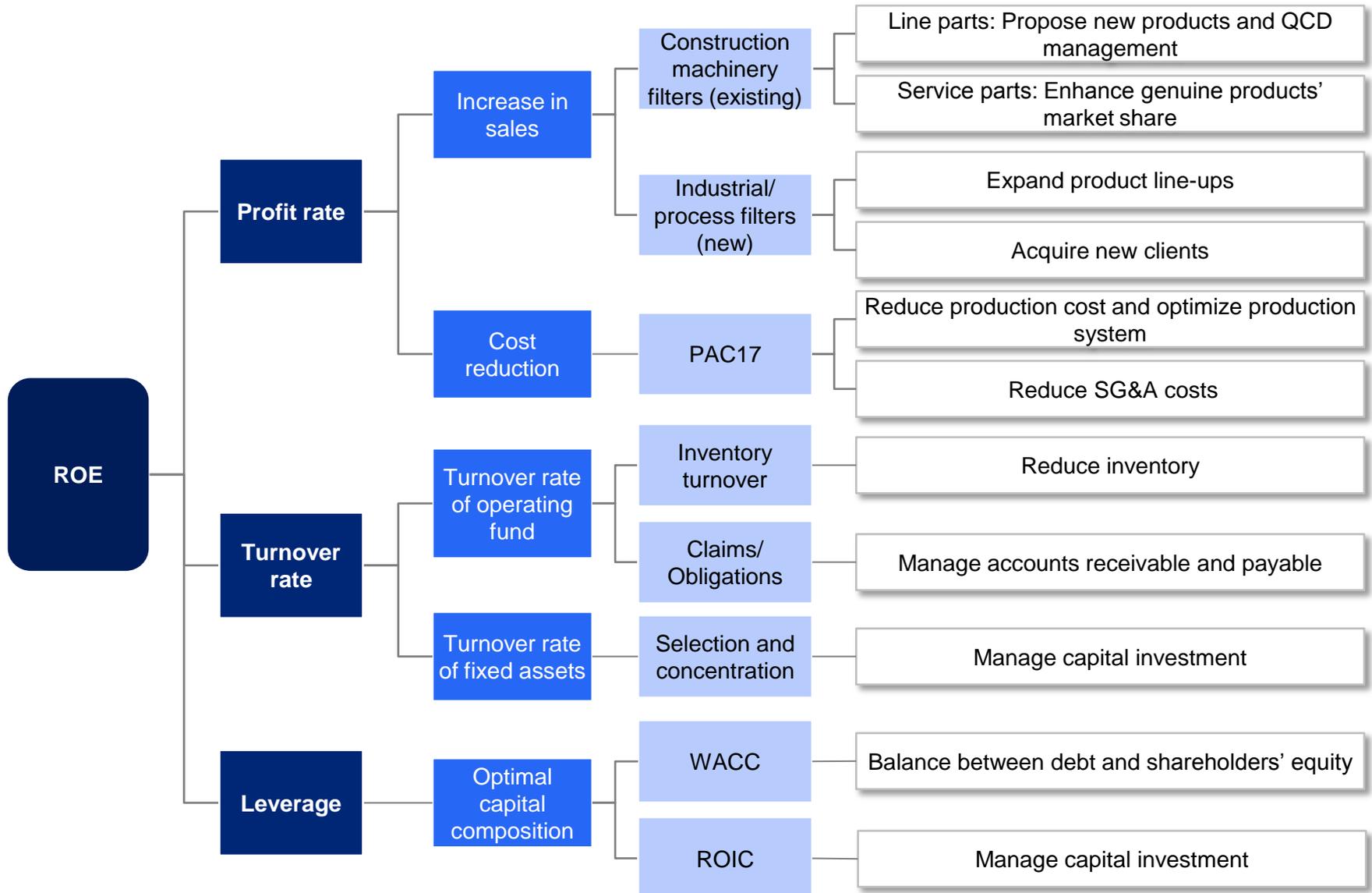
Conditions of Operational Hedge - Marry and Netting

- More than 70% of the Group's business is traded in yen
- Other than yen, the trading currency is mostly US dollar, which is hedged with operational hedge – marry and netting

(Million yen)

Currency	Incoming		Outgoing		Net		Net	In case of appreciation of yen (10%)			In case of depreciation of yen (10%)		
	Each currency	Compo-sition ratio	Each currency	Compo-sition ratio	Each currency	Average rate in the term (JPY)		Yen equivalent (JPY)	Average rate in the term ▲10% (JPY)	Yen equivalent (JPY)	Effecting amount (YTD)	Average rate in the term +10% (JPY)	Yen equivalent (JPY)
JPY	¥13,200.0	75%	¥11,700.0	71%	¥1,500.0	-	-	-	-	-	-	-	-
USD	\$33.5	21%	\$32.3	21%	\$1.2	¥108.4	¥130.1	¥97.56	¥117.08	¥13.01	¥119.25	¥143.09	¥-13.01
EUR	€ 4.8	3%	€ 3.3	2%	€ 1.5	¥118.8	¥178.2	¥106.94	¥160.40	¥17.82	¥130.70	¥196.05	¥-17.82
PHP	PP0.0	0%	PP390.0	5%	PP-390.0	¥2.3	¥-879.8	¥2.03	¥-791.80	¥-87.98	¥2.48	¥-967.75	¥87.98
THB	฿70.2	1%	฿23.2	0%	฿47.00	¥3.1	¥144.9	¥2.77	¥130.39	¥14.49	¥3.39	¥159.37	¥-14.49
Total	-	100%	-	100%	-	-	¥-426.6	-	¥-383.93	¥-42.66	-	¥-469.25	¥42.66

Breakdown of ROE



Ⅱ. FY2017 Full-year Forecasts

Persistent Efforts in Optimizing Production System



Summary of the Construction Machinery Market's Environment

One year ago

Current

Future forecast

China

- Significant production cutback due to slowdown of real estate investment

- Demand shows signs of recovery, supported by public investment

- Capital investment will be controlled under policy

North America

- Production cutback due to sluggish energy-related investment

- Signs of recovery are shown as a result of infrastructure investment

- Investment in infrastructure may grow even further

Japan

- Reaction to the rush demand before the enforcement of exhaust gas regulations

- Reaction to the last minute demand before the enforcement of exhaust gas regulations continues

- Rush demand before the enforcement of environmental regulations may increase

South-east Asia

- Production cutback in the other Asian areas due to sluggish Chinese market

- Although infrastructure investment is sluggish, mine machinery investment shows signs of recovery

- Production may increase in response to the Chinese market's recovery

Market Forecast

- Distinct recovery of the Chinese market
- Global demand for new construction machinery is expected to be stronger than the previous year

Assumption of Foreign Exchange

- FY2016 actual results: US\$1 = 108 yen
FY2017 forecast: US\$1 = 115 yen
- Risk is hedged through operational hedge - marry and netting

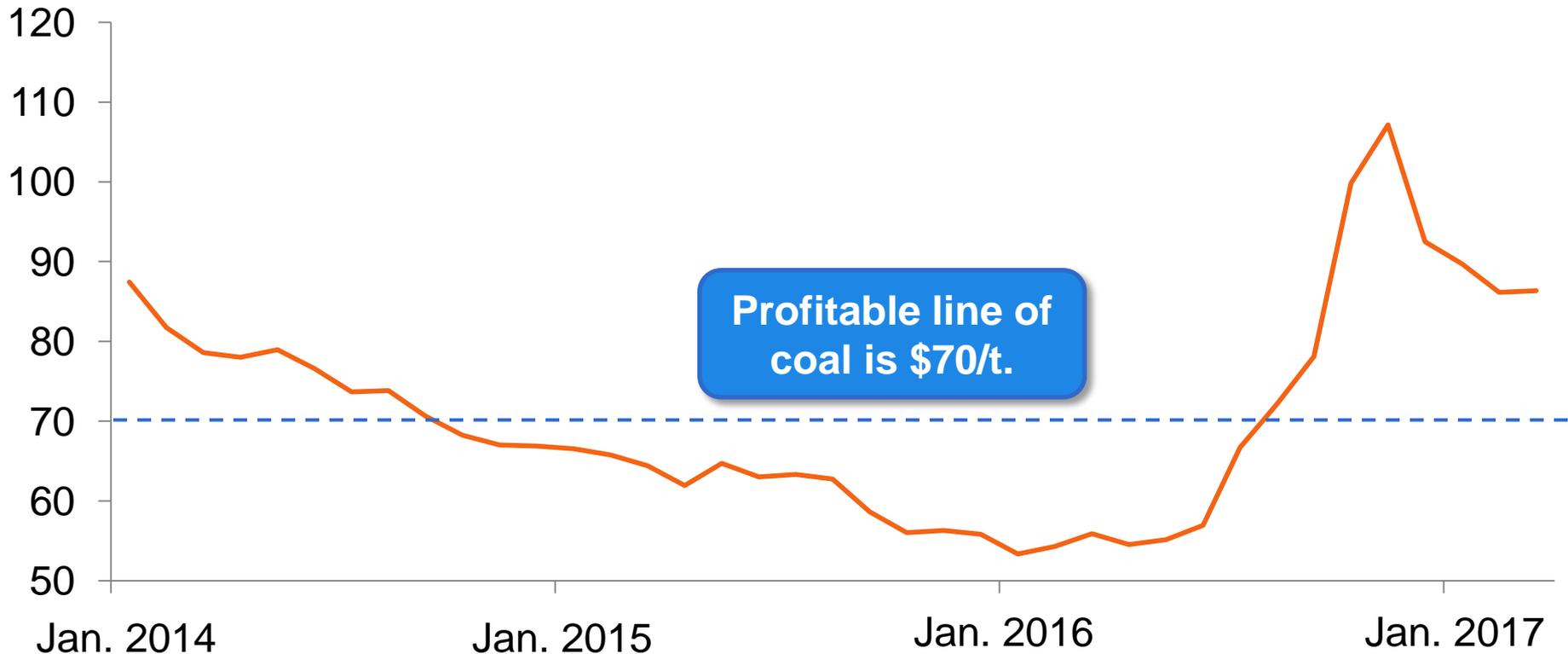
Trend of Service Parts

- Operation hours of construction machinery **are** increasing in China
- Continue promoting the after-sales market business

(Reference) Trend of the Mining Industry

- The trading unit price of coal is increasing, as a result of economic recovery in China
- The mining business in Indonesia is prospering for the same reason above

(Unit: US\$: Ton)



(Reference) Prepared by YAMASHIN-FILTER based on the data by International Monetary Fund.

FY2017 Full-year Business Forecasts

- Net sales' expectation: Chinese market's recovery will have a positive impact on other Asian countries
- YoY increase in profits is expected to be smaller than that of the previous year because of upfront investment

		FY2016	FY2017	YoY Change	
		Actual	Forecast	Amount	%
(Million yen)					
Net Sales		10,007	11,090	1,082	10.8%
Operating Income		957	980	22	2.3%
Net Income		640	660	20	3.1%
Exchange rate	USD	108.4	115.0	6.6	6.1%
	EUR	118.8	120.0	1.2	1.0%

FY2017 Full-year Sales Forecasts by Product

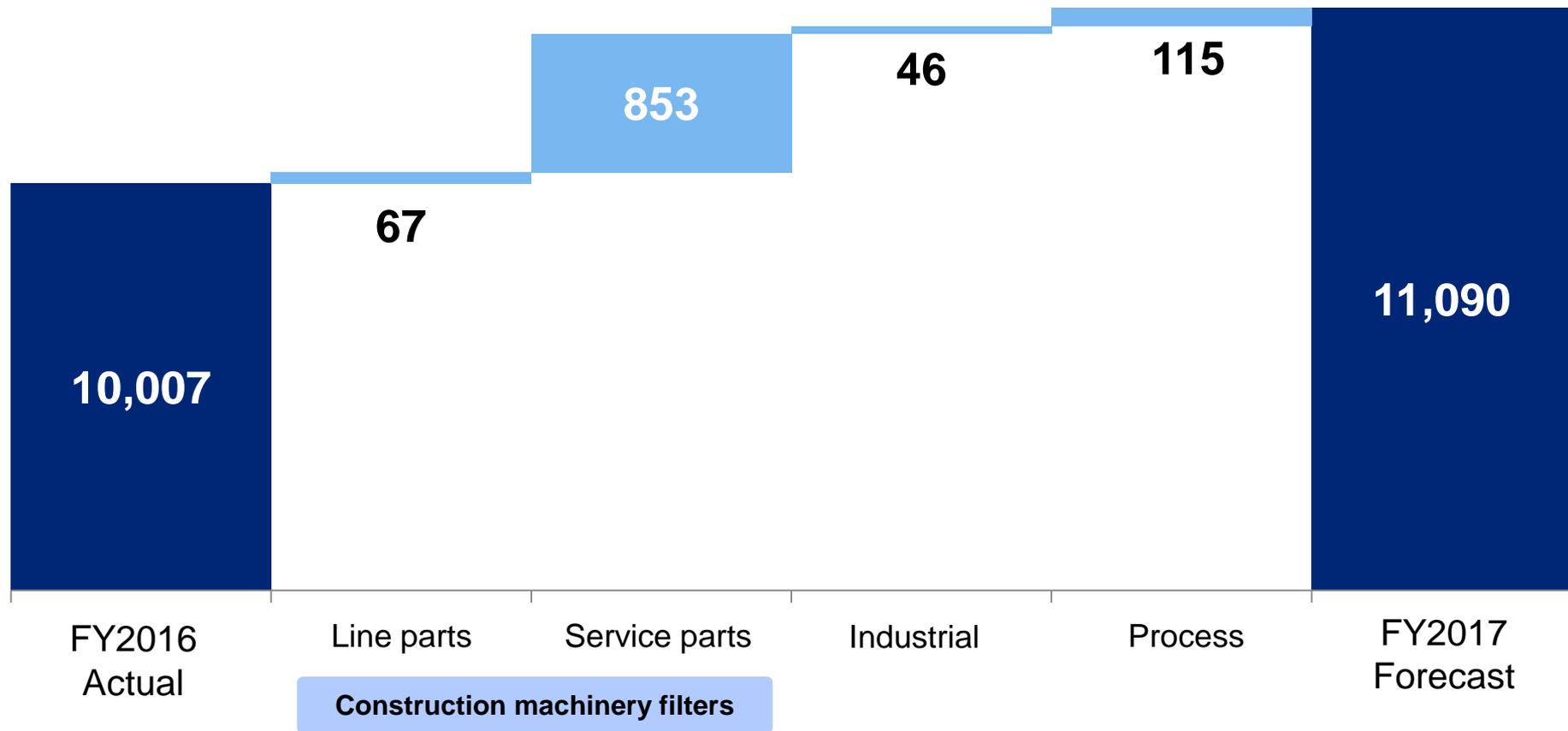
- Revenue from service parts is expected to increase in double-digit as a result of demand increase and promotion of after-sales market business by construction machinery manufacturers

	FY2016	FY2017	YoY Change	
	Actual	Forecast	Amount	%
(Million yen)				
Construction machinery filters	8,705	9,626	921	10.6%
Line parts	3,825	3,893	67	1.8%
Service parts	4,879	5,732	853	17.5%
Industrial filters	475	521	46	9.8%
Process filters	826	941	115	13.9%
Total of sales	10,007	11,090	1,082	10.8%

Changes in Sales

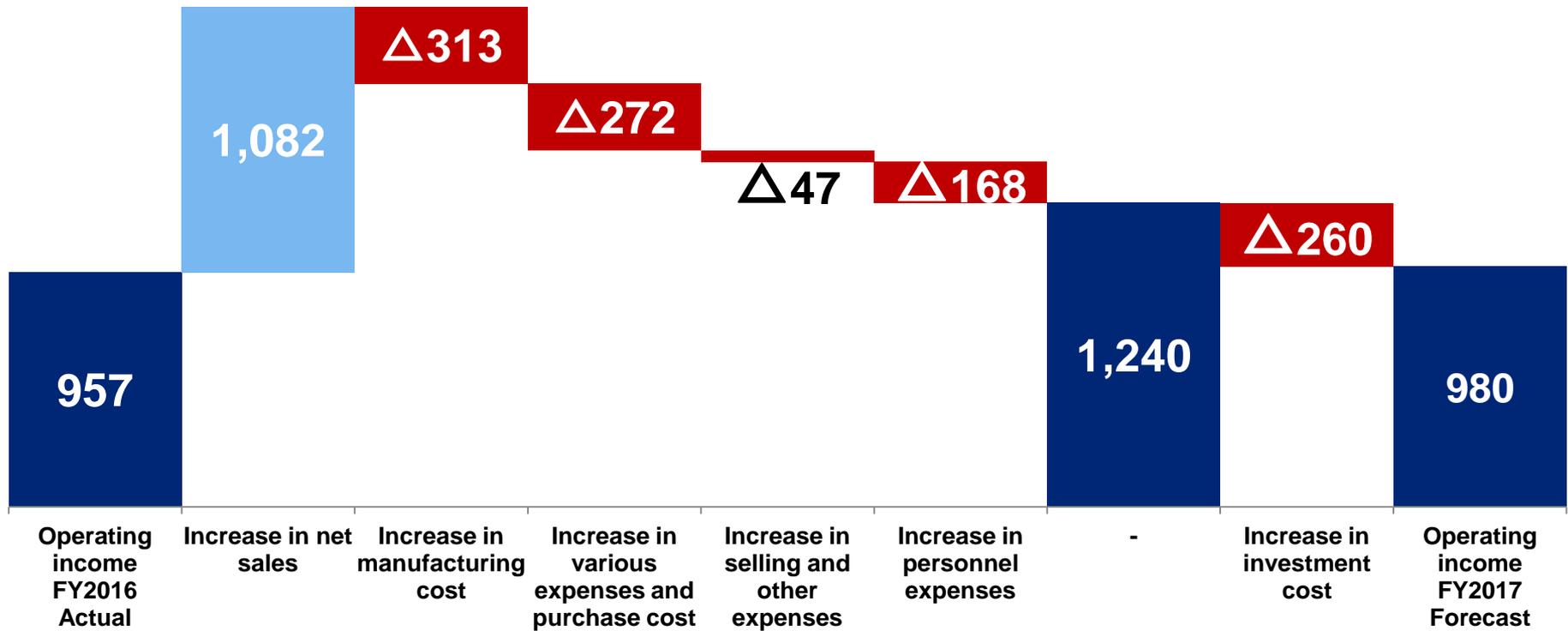
- Revenue from service parts is expected to increase in double-digit as a result of increasing demand and promotion of after-sales market business by construction machinery manufacturers

(Million yen)

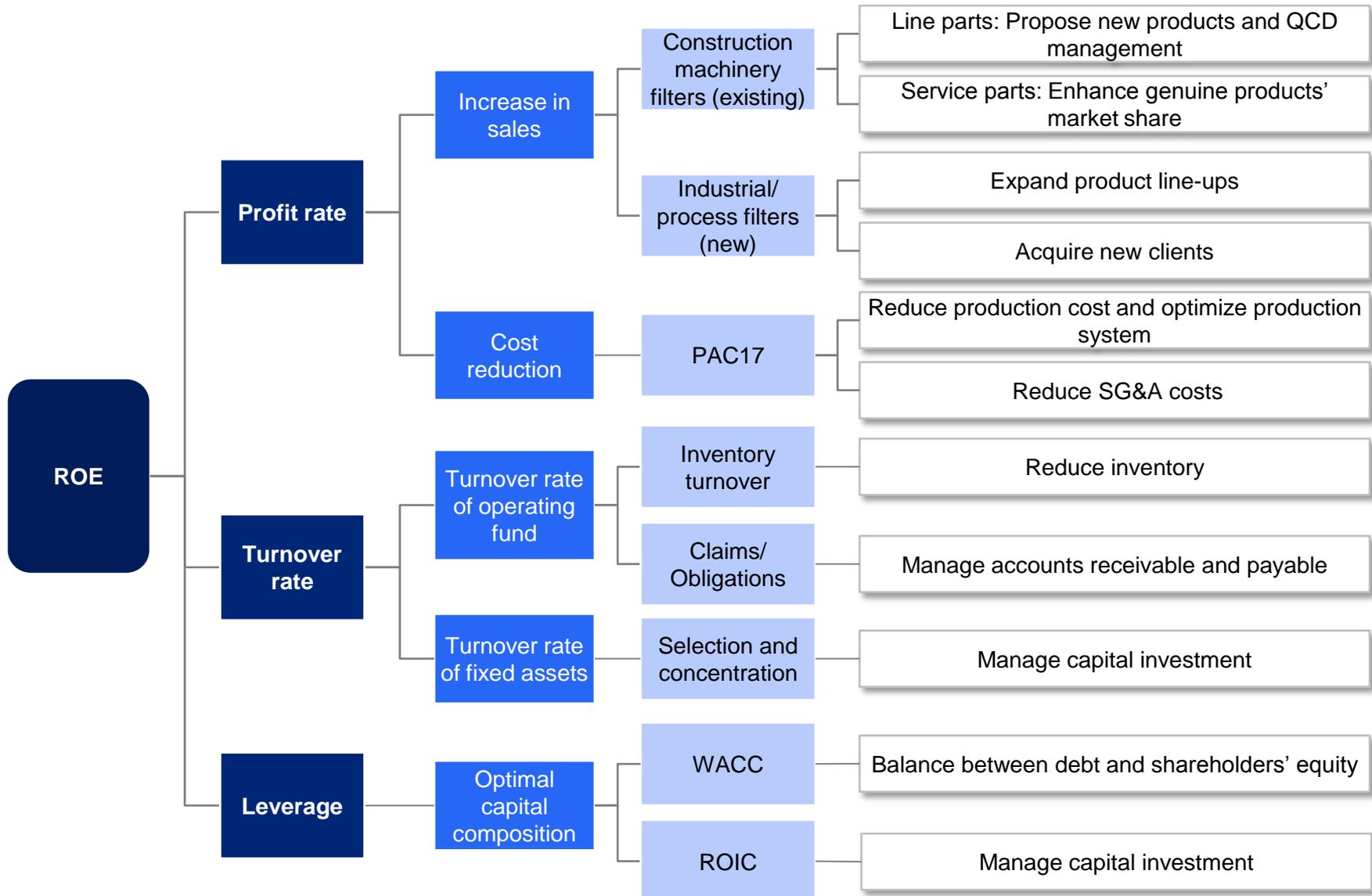


FY2017 Full-year Business Forecasts - Operating Income

- Increase in operating income will be small due to increase in investment cost

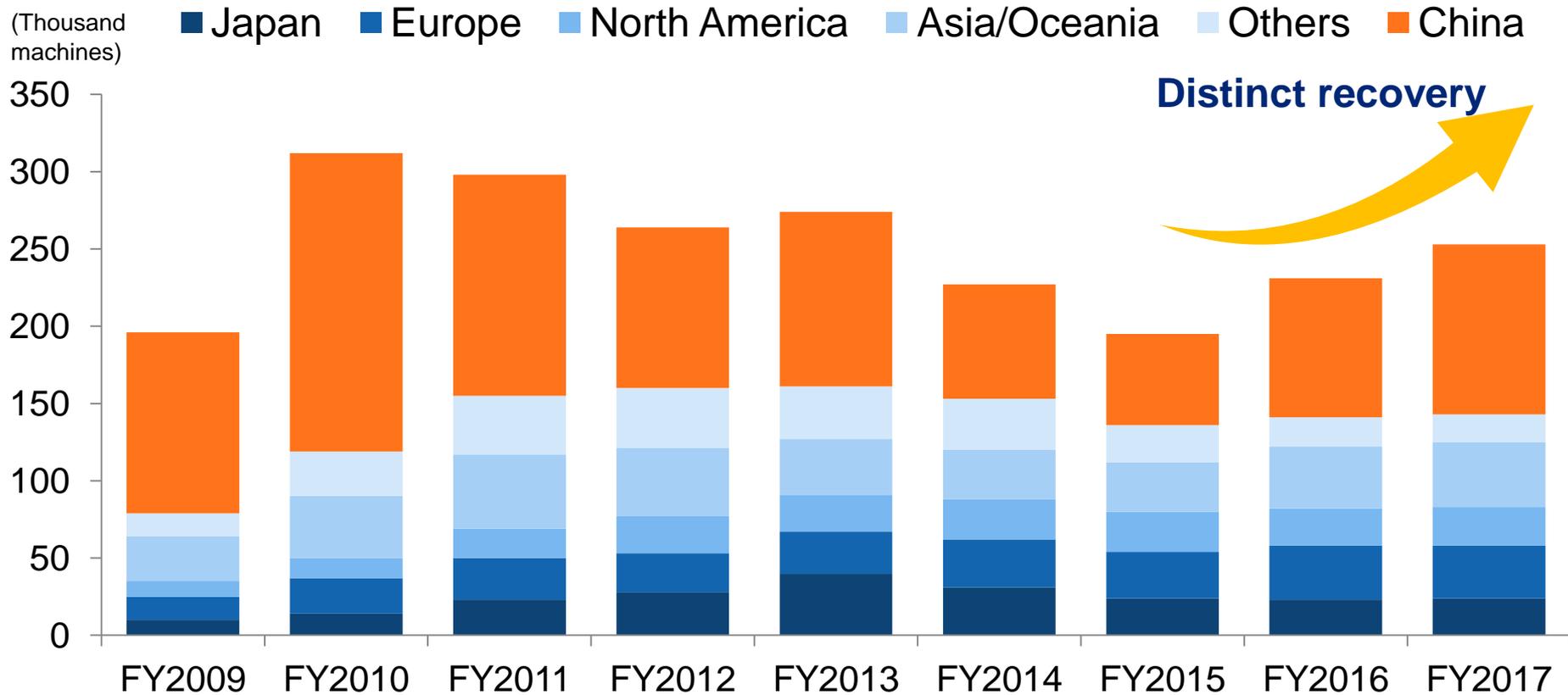


Breakdown of ROE (re-shown)



Business Environment / Demand for New Excavators

- The construction machinery market in China is expected to continue to recover as a result of increase in government's investment.

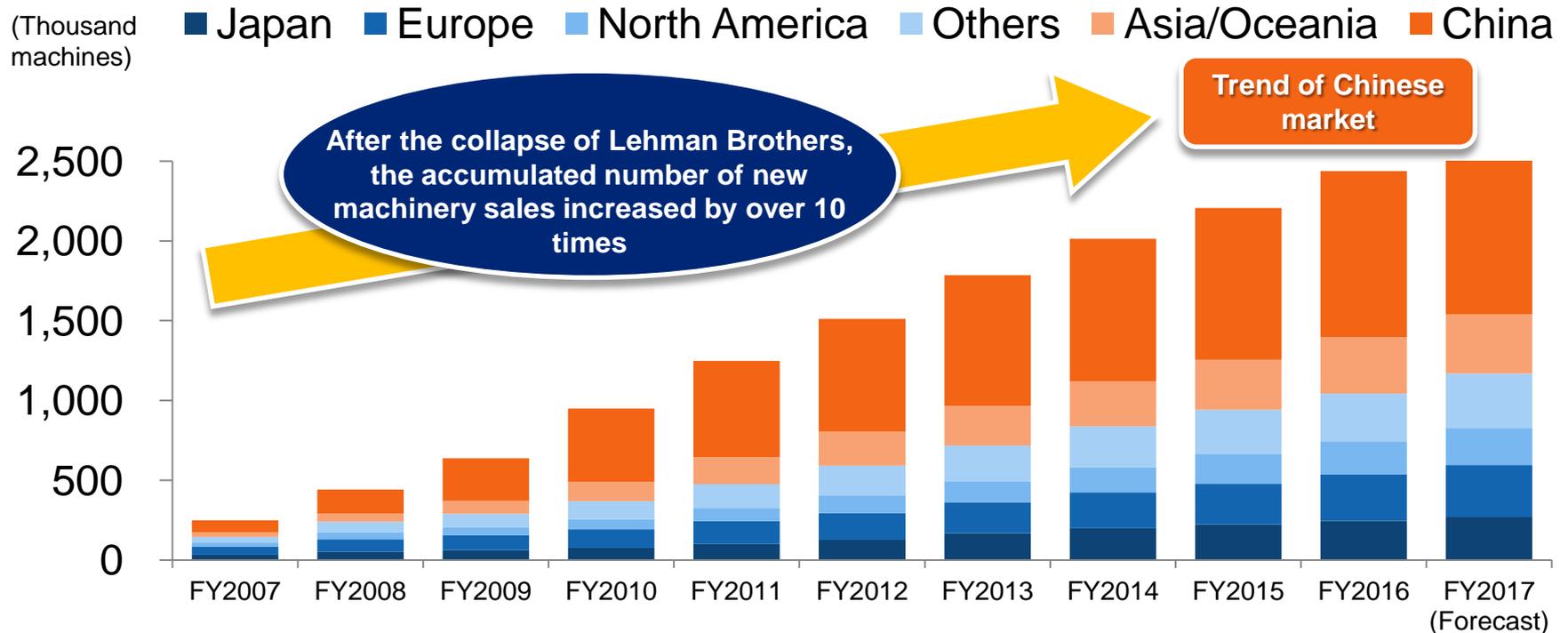


*Figures are estimated by YAMASHIN-FILTER based on data from construction machinery manufacturers and industry associations

Forecast

Cumulative Number of New Machinery Sales

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



China
Fiscal spending of 4 trillion yuan

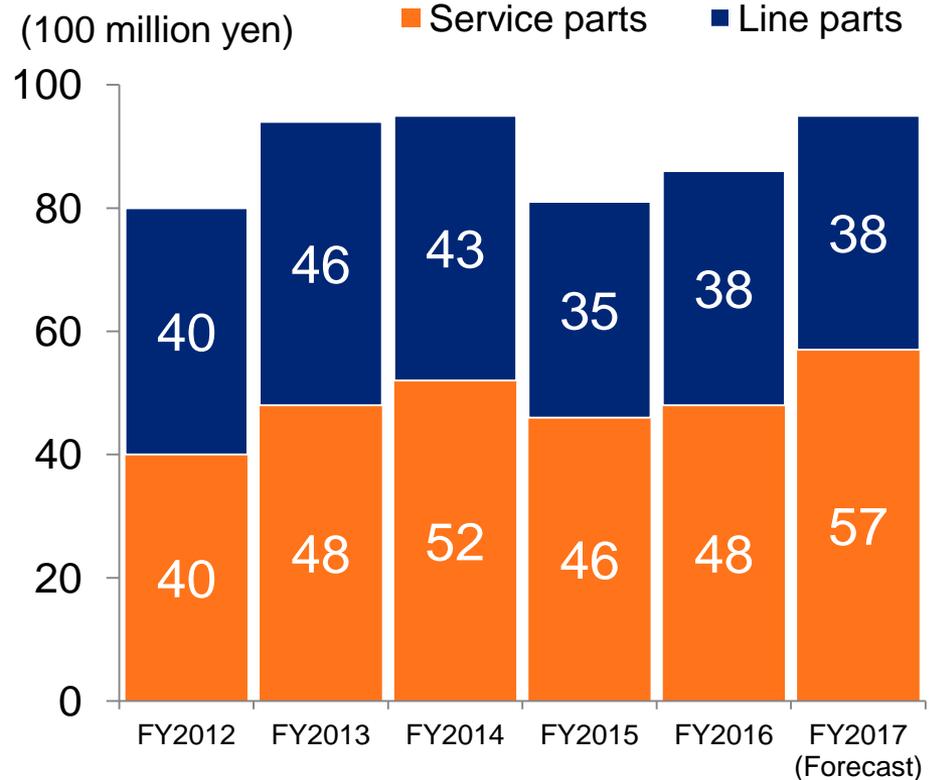
China
Fiscal spending of 2 trillion yuan

- The business of service parts is a stable income. The demand for service parts will expand gradually with the increase of operating construction machinery

FY2016 Sales composition ratio of construction machinery filters



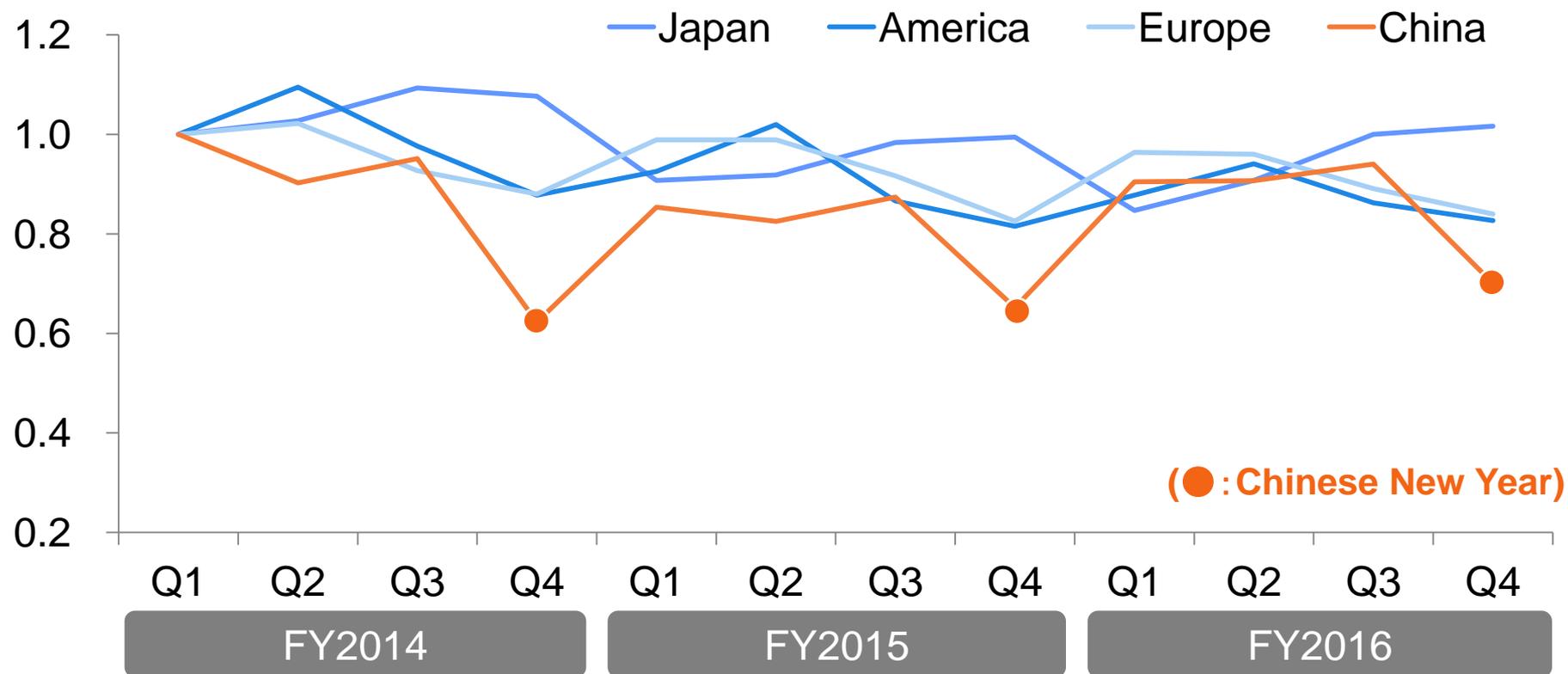
Changes in sales of line parts and service parts



Construction Machinery Operation Hours

- Construction machinery operation hours in China for FY2016 are recovering compared to previous fiscal year

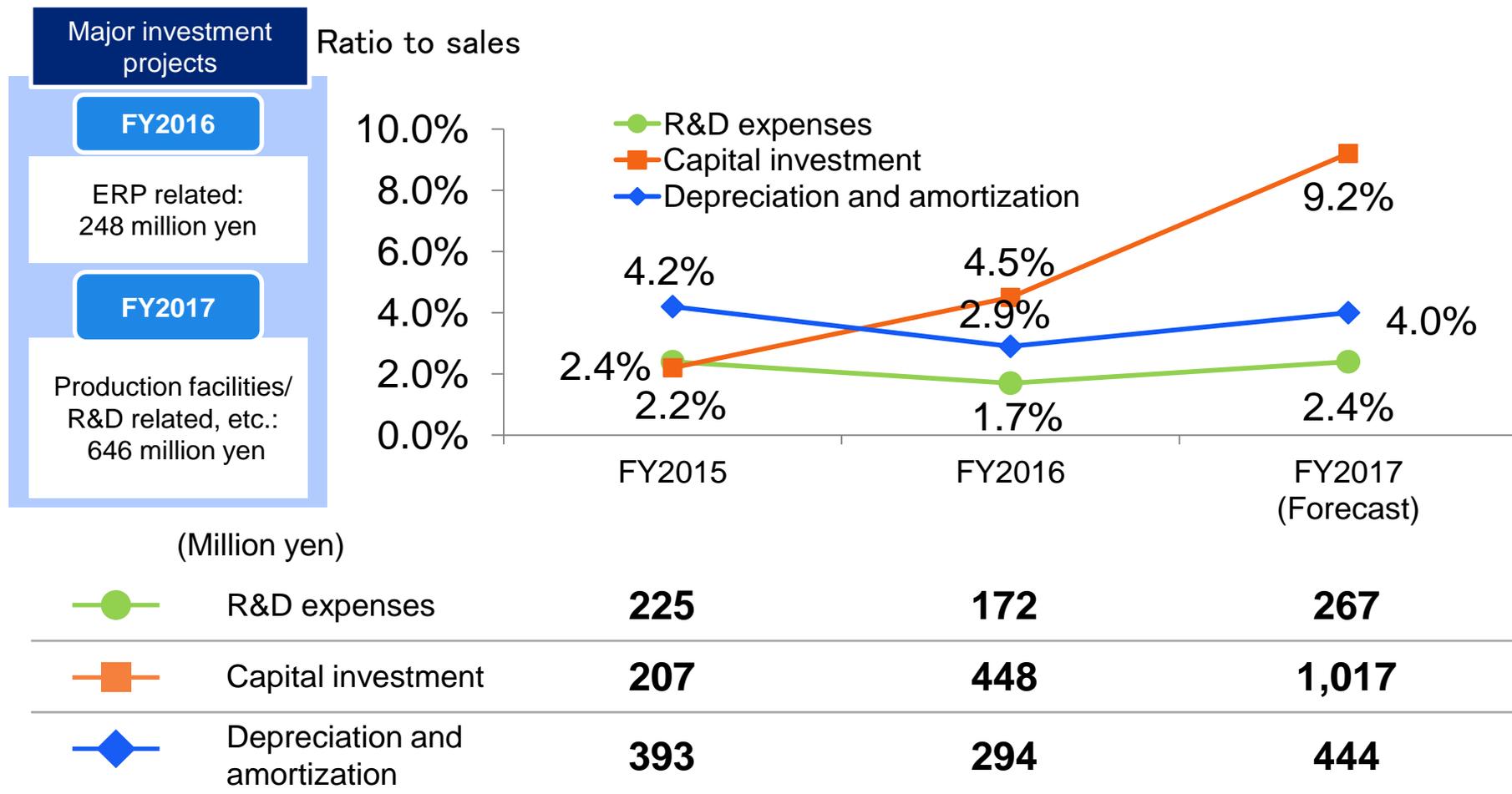
(Quarterly changes are shown in the graph below with the value of the quarter from Apr. to Jun. 2014 being set to 1.0 for indexation purposes)



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

Changes in R&D Expenses, Capital Investment, and Depreciation & Amortization

- Increased capital investment to increase future profitability



Ⅲ. Business Portfolio's Expansion

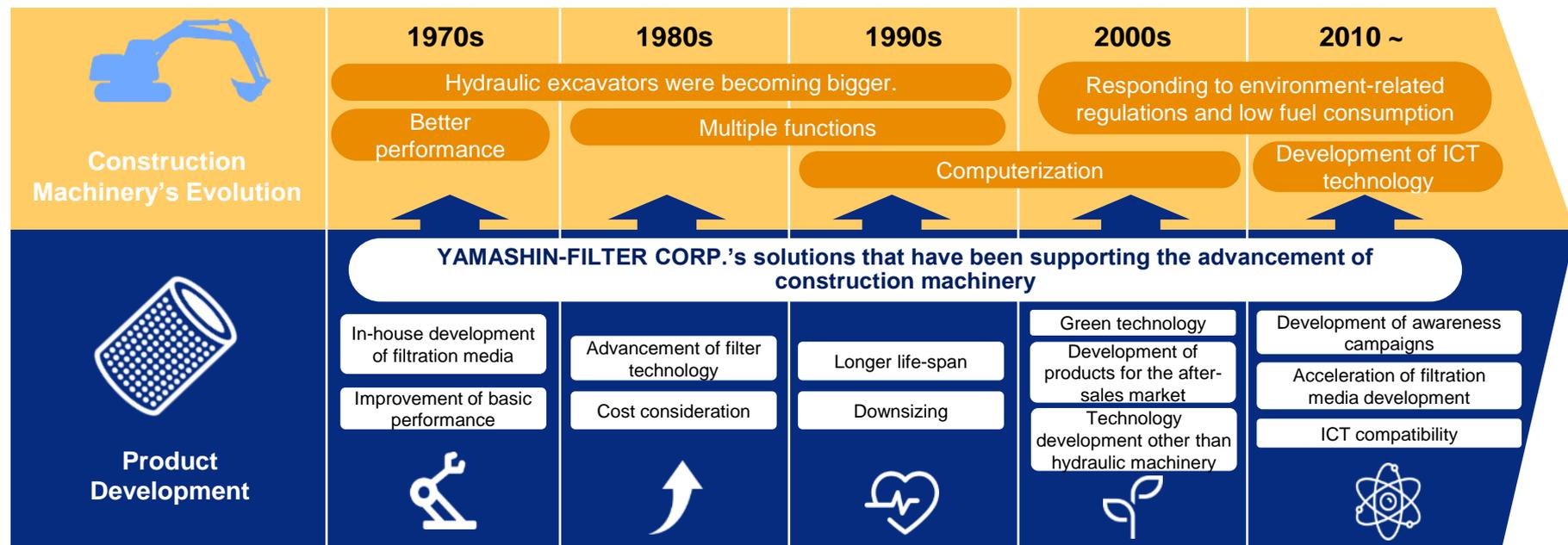
Establish Foundation for the Next Generation's Innovation



Construction Machinery Evolution and Product Development

- “Capability to propose” and “capability to design” have been supporting the improvement of construction machinery

60 years of experience	We have 60 years of experience as a manufacturer of construction machinery filters. Together with construction machinery manufacturers, we have been striving to improve performance and quality.
Growing needs of hydraulic filters	The capacity of hydraulic filters has drastically improved. There is a growing need for filters that can perform properly even inside of high-pressured hydraulic machine.
Development of glass-fiber and filtration media	Developed glass-fiber filtration media to replace conventional papers, which led the opportunity for further growth.
Innovation	Keep innovating to overcome challenges in construction machinery’s market and maintain front-runner’s position



Sales Expansion Activities

		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)
		Propose efficiency improvement efforts	Collect test data (currently in progress)
	Service parts	Retake market share from non-genuine products (i.e. imitations) market by holding seminars	Continue marketing activities that correspond to the characteristics of Chinese markets and other geographical areas
Industrial filters		Strengthen cooperation with partners	Continue cooperation with partners; reduce the cost of existing products
Process filters		Diversify product series	Start the development of product lineup expansion

Differences between PAC16 and PAC17

- PAC17 aims to reduce costs through “purchasing reformation” and “supply chain review”

PAC16

- Improve yield ratio of materials
- Reduce defect rate

- Improve efficiency of procurement and design drawing
- Stabilize quality by using mechanical equipment
- Reduce filtration media loss
- Review business trip plans for efficiency/ rationalization

Production cost: 180 million yen
SG&A: 120 million yen

Targets

Specific actions

Target reduction

PAC17

- Purchase reformation
- Supply chain review

- Find new overseas suppliers
- Improve procurement plans and reduce purchasing unit price
- Production transfer while considering outsourcing production

Production cost: 210 million yen
SG&A: 40 million yen

The “Yamashin’s Triangle” – Production System’s Optimization

- Thoroughly review purchasing and production process in order to quickly catch up with competitors’ filter production systems

Procurement/purchase capacity

- Identify new suppliers at global level

Production technological capacity

- Full-scale introduction of automated production facilities and product’s customization

YAMASHIN
Production System

=

Procurement/
purchase capacity

×

Production
technological
capacity

×

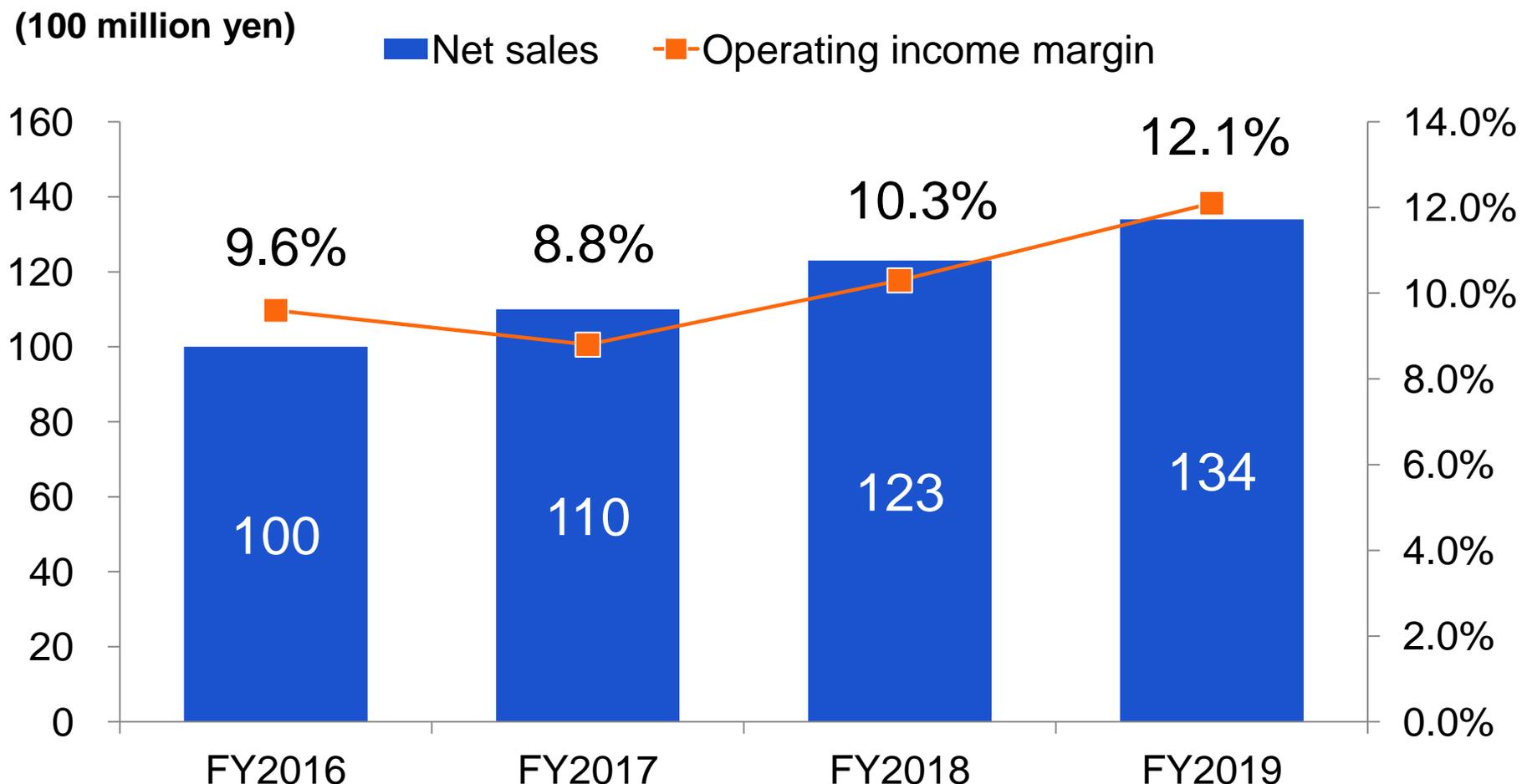
Production system

Production system

- Promote planned production in pursuit of production efficiency

Mid-term Management Plan

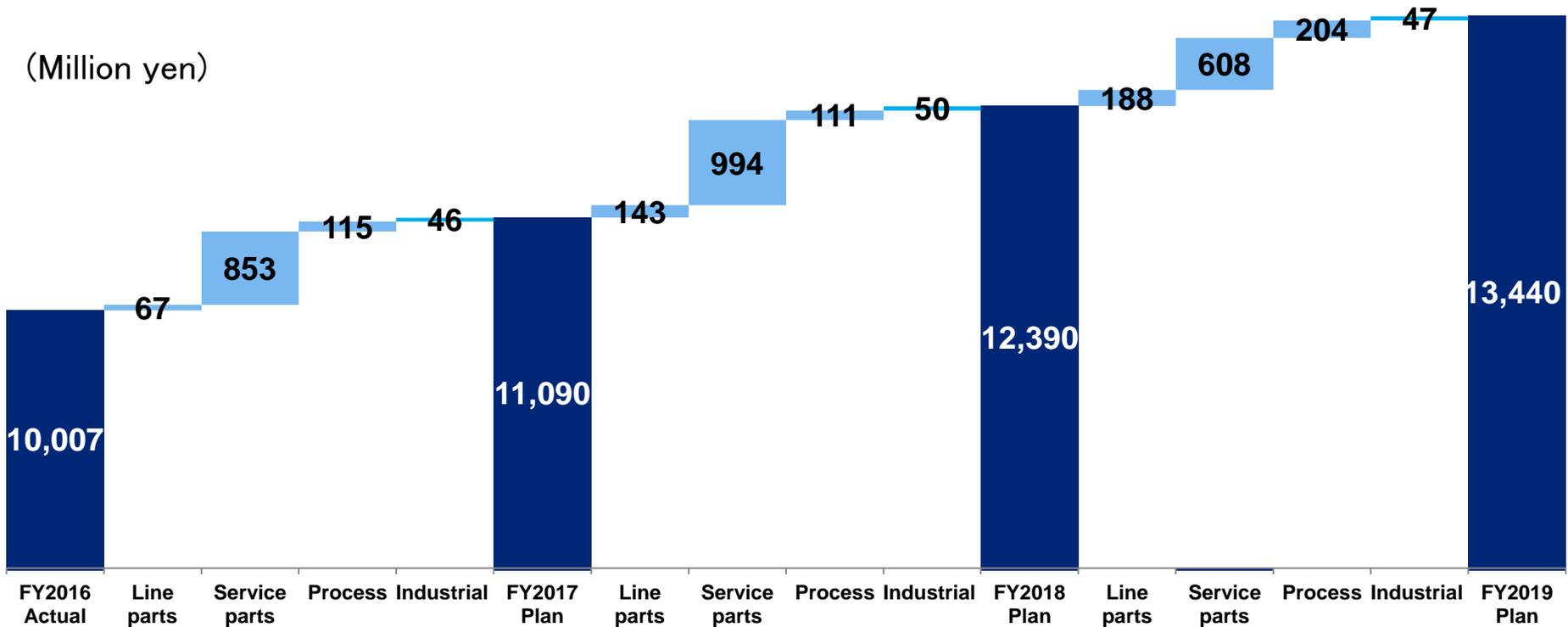
- Aiming to achieve net sales of 13.4 billion yen and an operating income ratio of $\pm 12\%$ by FY2019



Changes in Net Sales - Mid-term Management Plan

- Net sales of line parts and service parts will increase as a result of the Chinese and Asian markets' recovery

Changes in Net Sales



Approach to Construction Machinery Market in China

- Sany Heavy Machinery decided to use our filters on a full-scale basis
- Aim to sell the products to mid-sized manufactures other than Sany Heavy Machinery in China

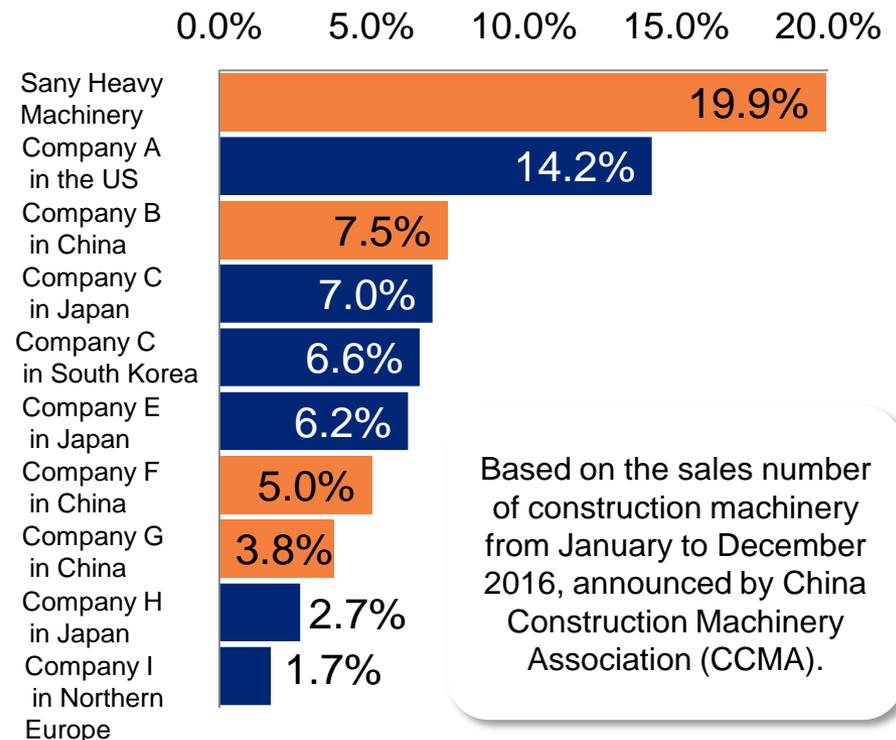
What is Sany Heavy Machinery?

A company that manufactures and sells hydraulic excavators, etc. It belongs to Sany Group, which is the **largest** comprehensive construction machinery manufacturer **in China**



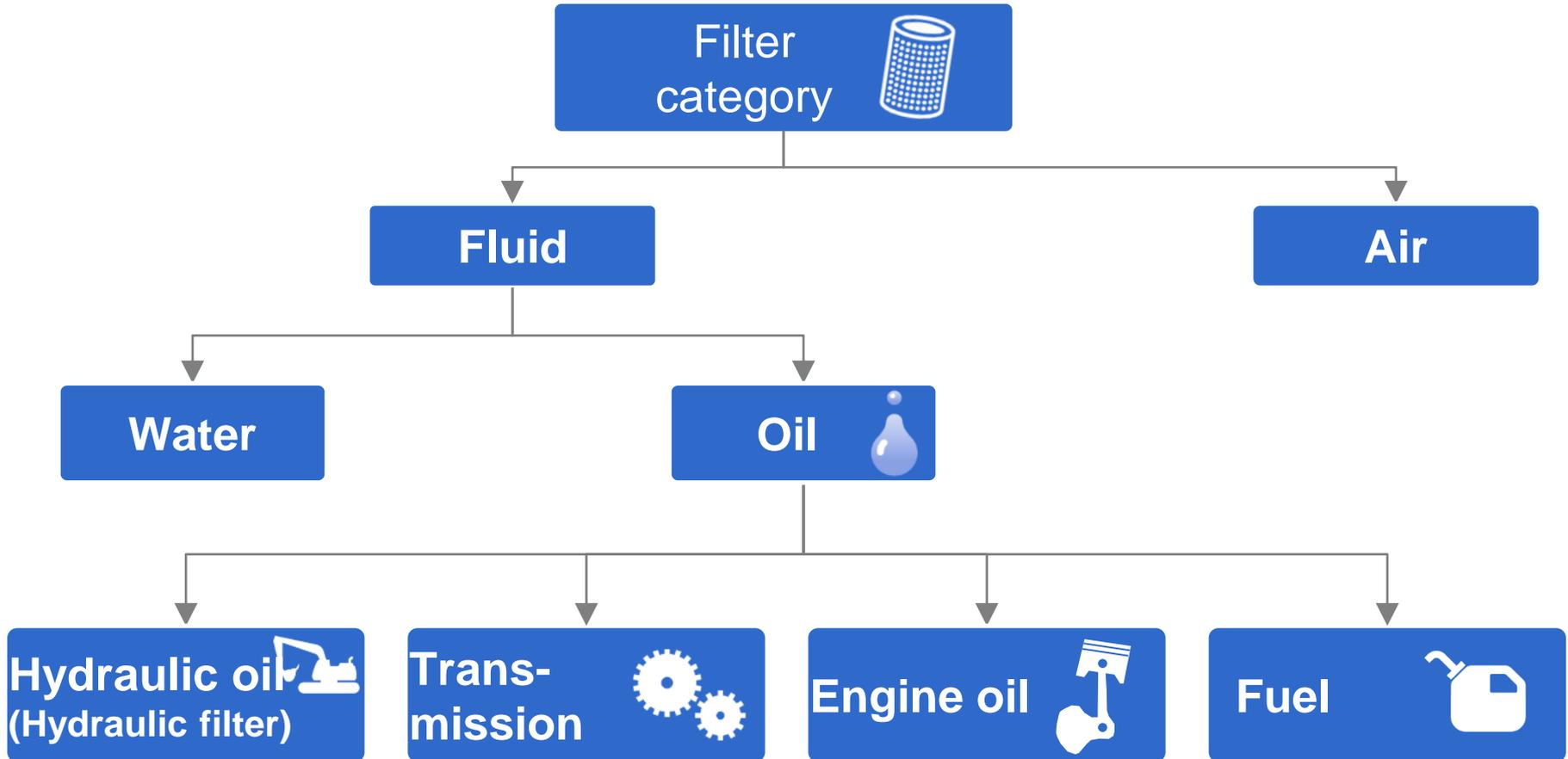
Top 10 companies for the sales of construction machinery in China

50% is occupied by Chinese companies including the ones that are mid-sized and smaller.



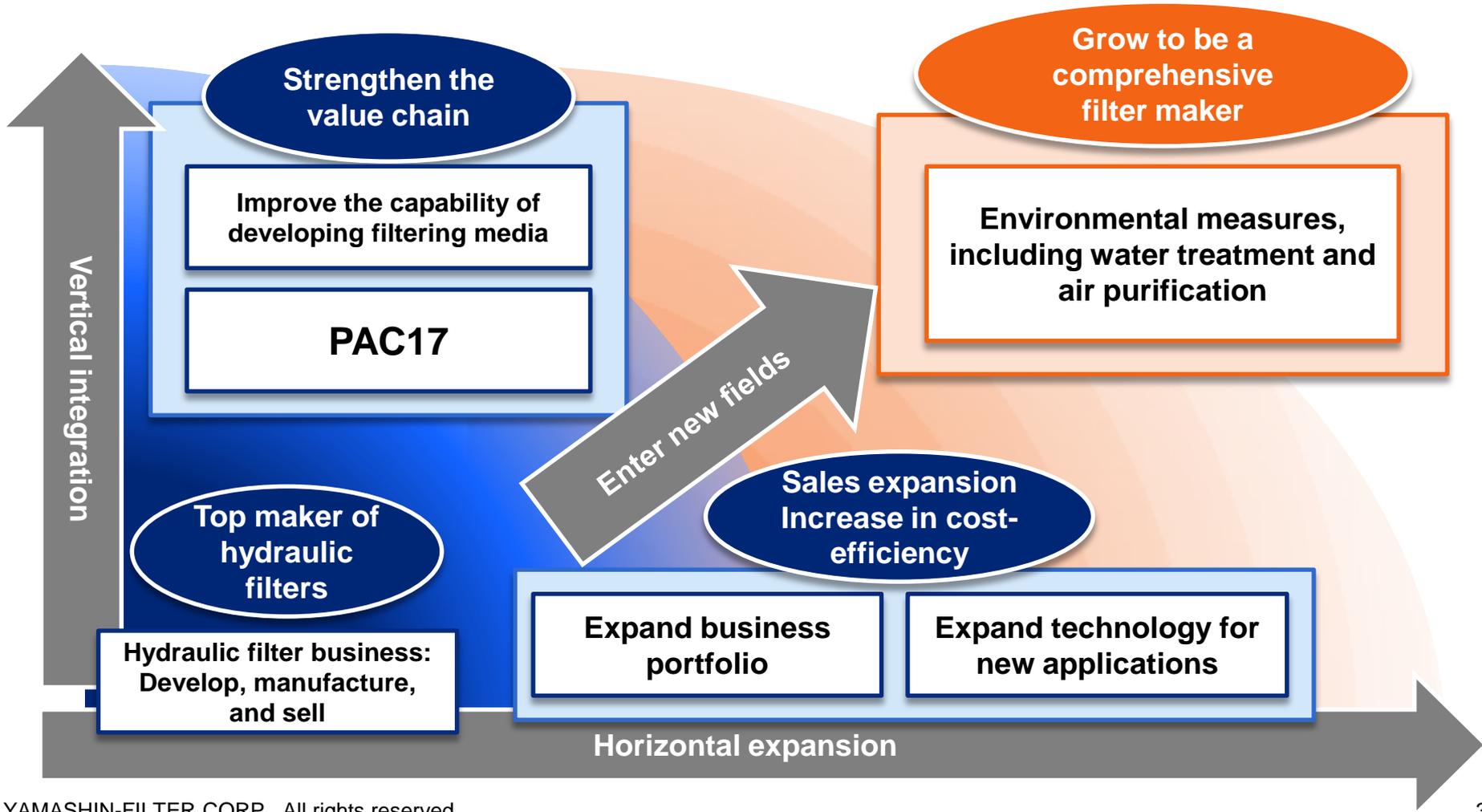
Business Portfolio's Expansion

- Aim to expand business in the water filter and air filter markets



Path to Further Growth

- Increase corporate value by promoting vertical integration and horizontal development



Shareholders' Return

- Annual dividend will be increased to 14 yen per share, including interim dividend of 7 yen and year-end dividend of 7 yen per share

	FY2015	FY2016	FY2017
Dividend per share	10 yen	12 yen	14 yen
DOE	2.0%	2.3%	2.6%
Total return ratio	74.1%	25.6%	31.6%

*The figures for FY2017 are current estimated values.

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

FY2016 Actual Results

- Distinct recovery of the Chinese market

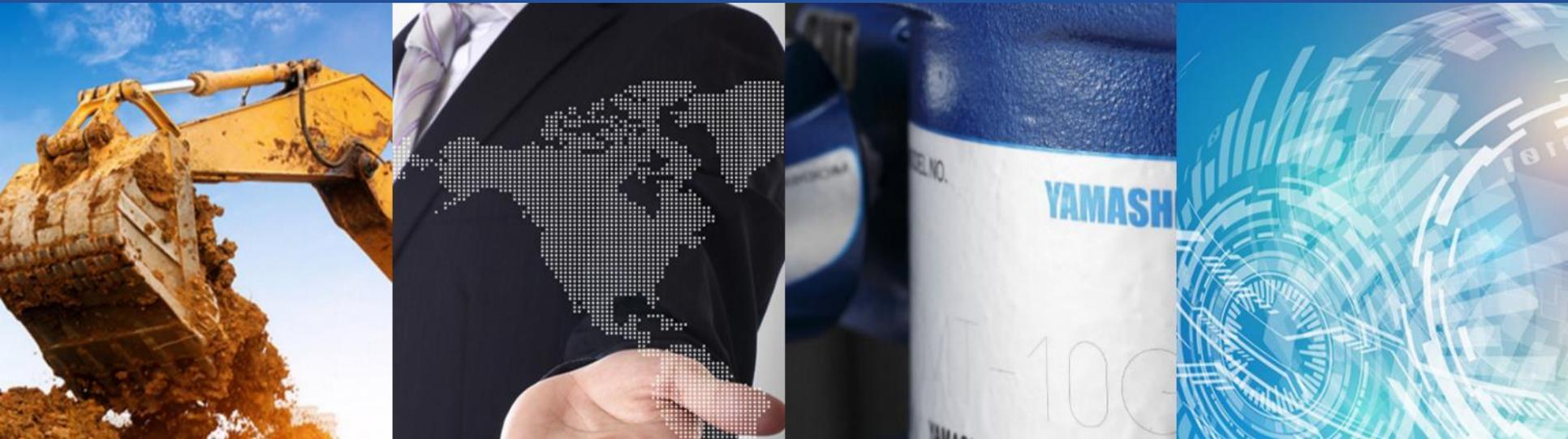
FY2017 Full-year Forecasts

- Persistent efforts in optimizing the production system

Business Portfolio's Expansion

- Establish foundation for the next-generation's innovation

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**”

Selling 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
- **PAC16 (Promptly Activated Cost reduction 2016)**
 - The company-wide cost reduction project due to the sluggish sales

Sales by Region - Actual Results (Ref.)

- Since sales are calculated based on the invoices' destinations, data may differ from actual regional market trends

(Million yen)	FY2015 Actual		FY2016 Actual		FY2017 Forecast	
	Amount	%	Amount	%	Amount	%
Japan	4,885	51.6%	5,198	51.9%	5,597	50.5%
North America	1,722	18.2%	1,712	17.1%	2,094	18.9%
China	540	5.7%	948	9.5%	921	8.3%
Asia	1,053	11.1%	1,174	11.7%	1,362	12.3%
Europe	1,120	11.8%	978	9.8%	1,017	9.2%
Other (Middle East etc.)	137	1.4%	△ 5	△0.1%	96	0.9%
Total of sales	9,458	100.0%	10,007	100.0%	11,090	100.0%

FY2016 Q4 (Jan. – Mar.)

- Due to Chinese market recovery, we achieved growth in sales and profits

		FY2015 Jan.– Mar.	FY2016 Jan.– Mar.	YoY Change	
		Actual	Actual	Amount	%
(Million yen)					
Net sales		2,222	2,803	580	26.1%
Operating income		184	250	66	36.2%
Net income		108	168	60	55.2%
Exchange rate	USD	115.5	113.6	△ 1.8	△ 1.6%
	EUR	127.2	121.1	△ 6.1	△ 4.8%

* The actual exchange rates are based on the average value during the period.

Sales by Product Q4 (Jan.- Mar.)

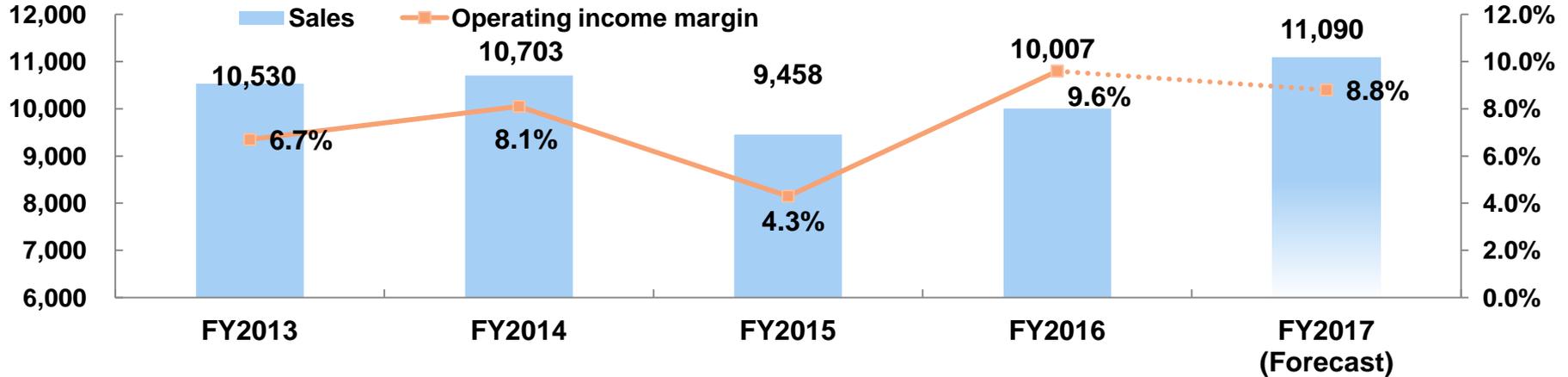
- Due to Chinese market recovery, we achieved sales growth in both line parts and service parts

	FY2015 Jan.– Mar.	FY2016 Jan.– Mar.	YoY Change	
	Actual	Actual	Amount	%
(Million yen)				
Construction machinery filters	1,941	2,449	508	26.2%
Line parts	939	1,152	213	22.7%
Service parts	1,002	1,297	295	29.4%
Industrial filters	109	145	35	32.4%
Process filters	171	208	37	21.7%
Total of sales	2,222	2,803	580	26.1%

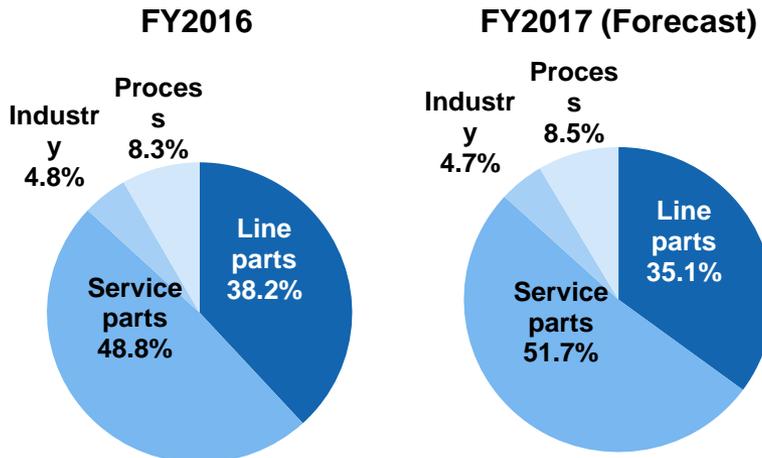
Financial Highlights

Changes in Sales and Operating Income Margin

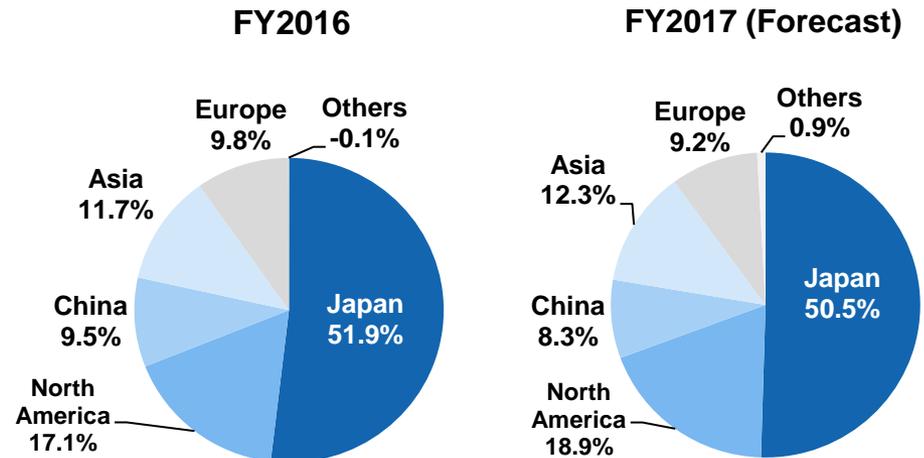
(Million yen)



Sales by Product

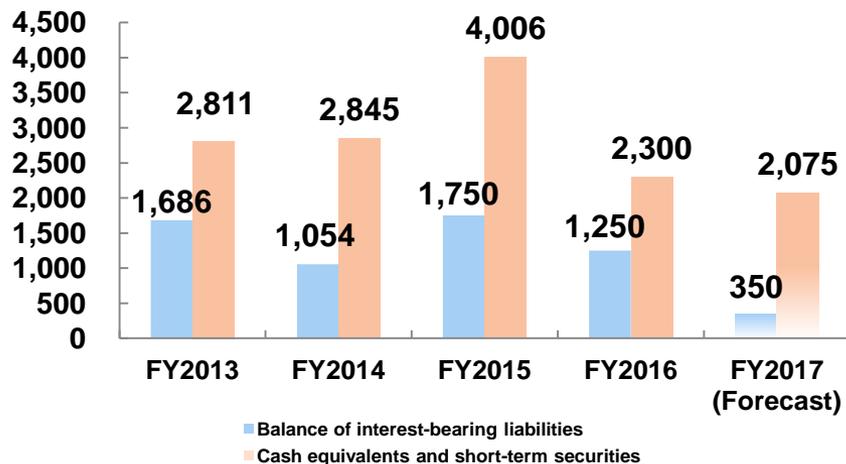


Sales by Region

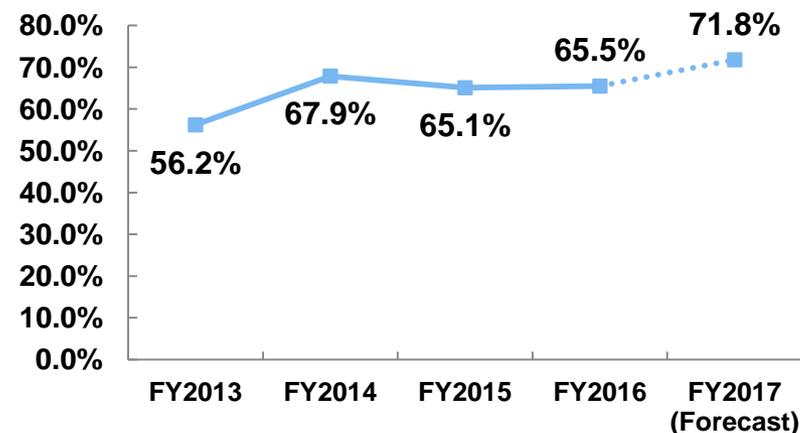


Balances of Interest-bearing Liabilities, Cash Equivalents, and Short-term Securities

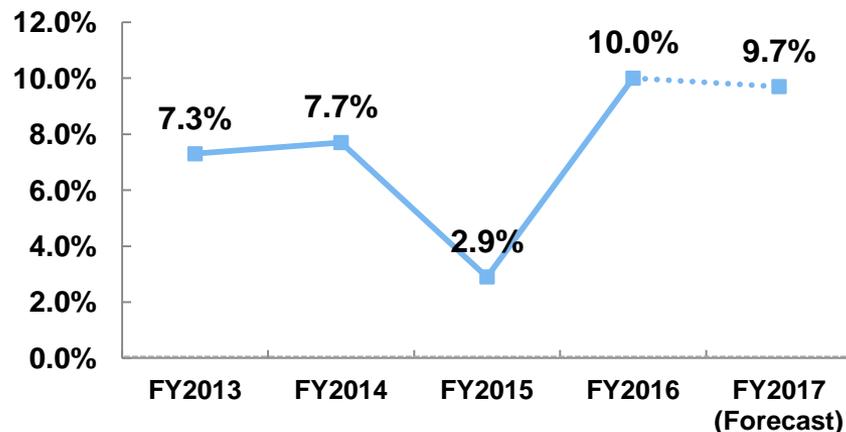
(Million yen)



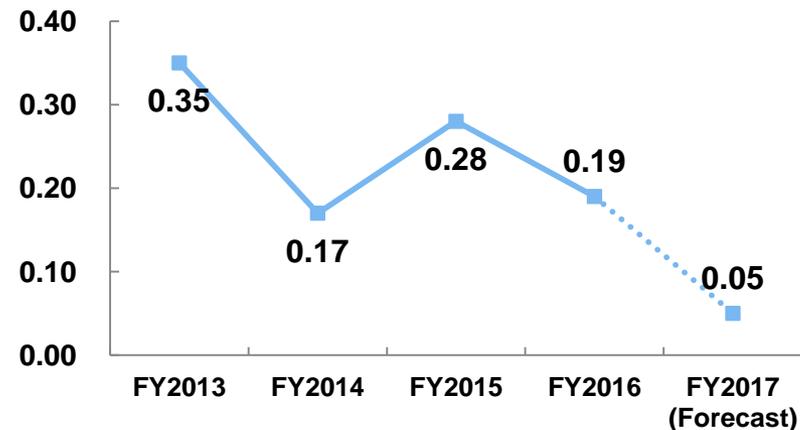
Shareholders' Equity Ratio



ROE



D/E Ratio



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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