

YAMASHIN-FILTER CORP.

Financial Results for the Second Quarter of the Fiscal Year Ending March 2017

**—The tide of the Chinese market has changed.
Anticipating a turning point, we'll make our
profit structure robust.**

**November 24, 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 in 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>		
In-company measures	<p>Conservative business reform</p> <p>Aggressive business reform</p>		

Summary of the external environment surrounding the construction machinery market

- The Chinese market has shown signs of recovery. The investment in infrastructure in major developed countries is strong as a whole.

	Emerging countries	Developed countries
Line parts	<ul style="list-style-type: none"> ■ In China, demand is recovering supported by public investment. ■ In Southeast Asia, the investment in mining machines is still sluggish, but the investment in infrastructure is strong. 	<ul style="list-style-type: none"> ■ In Japan, there remains the recoil from the rush demand before restrictions on exhaust gases. ■ In North America, the number of houses to be built is strong. ■ In Europe, the demand for construction machinery is strong in major countries.
Service parts	<ul style="list-style-type: none"> ■ In China, operation hours seemingly bottomed out. 	<ul style="list-style-type: none"> ■ In Japan, operation hours are decreasing as investments settled down. ■ In North America, there are signs of recovery due to the investment in infrastructure.

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, 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

I . FY2016 Q2 Actual Results

—The Chinese market has shown signs of recovery

FY2016 Q2 (Jul. – Sep.)

- Foreign exchange fluctuations decreased sales and increased income.
- The efforts for reducing cost (PAC16) paid off, increasing income considerably.

		FY2015 Jul. – Sep.	FY2016 Jul. – Sep.	YoY change	
		Actual	Actual	Amount	%
(Million yen)					
Net sales		2,569	2,436	△ 132	△5.2%
Operating income		82	243	161	194.2%
Net income		6	113	106	1561.5%
Exchange rate	USD	122.2	102.4	△ 19.8	△16.2%
	EUR	136.0	114.3	△ 21.7	△16.0%

* The actual exchange rates are average values during the corresponding period.

Sales by product (Q2: Jul. – Sep.)

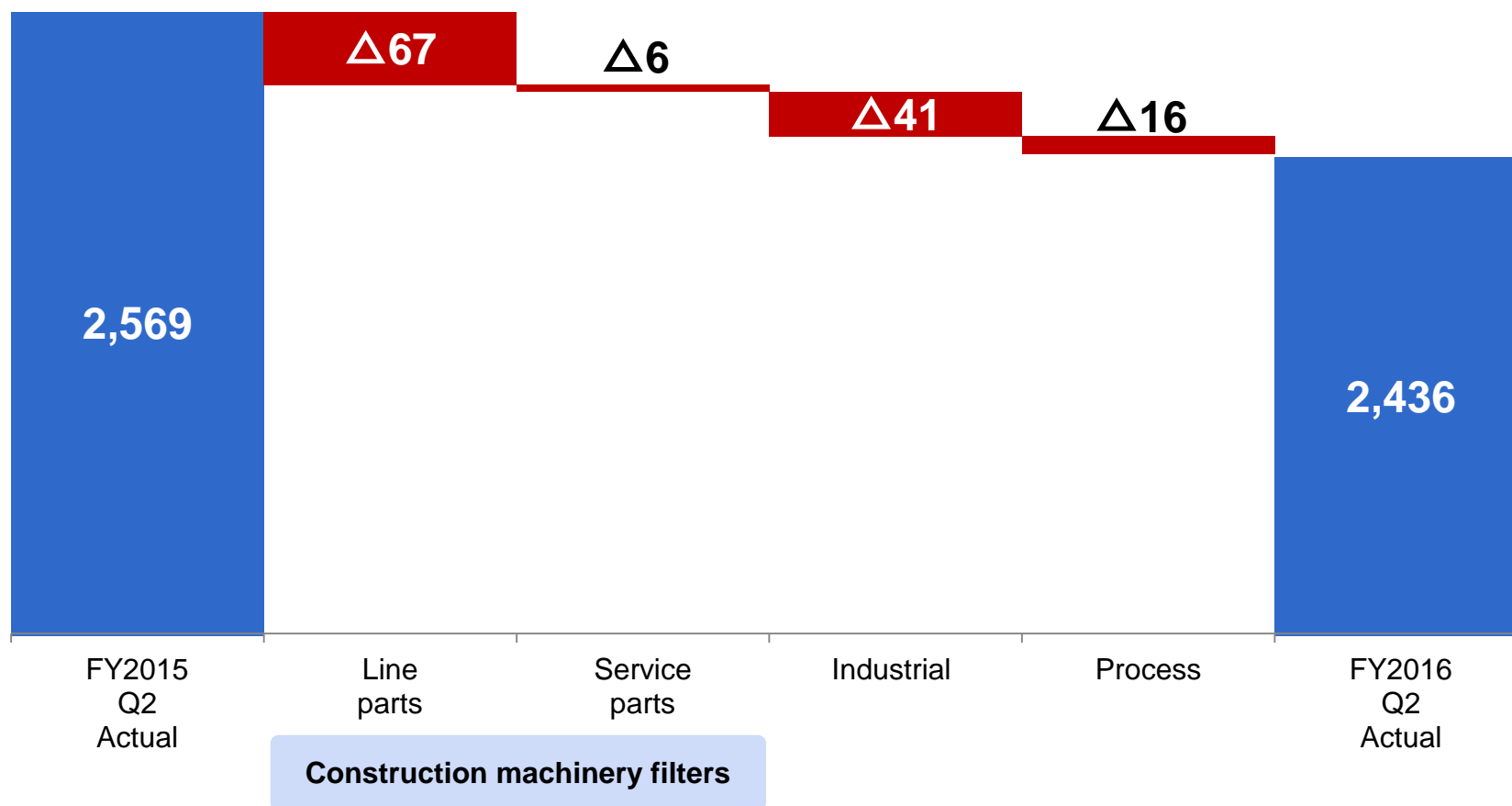
- There are signs of recovery of the Chinese market, and the demand for line parts has bottomed out.
- Orders for service parts are recovering, as inventory was reduced in the second half of the previous fiscal year.

	FY2015 Jul. – Sep.	FY2016 Jul. – Sep.	YoY change	
	Actual	Actual	Amount	%
(Million yen)				
Construction machinery filters	2,197	2,122	△ 74	△3.4%
Line parts	906	838	△ 67	△7.5%
Service parts	1,290	1,284	△ 6	△0.5%
Industrial filters	152	111	△ 41	△27.1%
Process filters	219	202	△ 16	△7.7%
Total of sales	2,569	2,436	△ 132	△5.2%

Factors for changes in sales (Q2: Jul. – Sep.)

- There are signs of recovery of the Chinese market, and the demand for line parts has bottomed out.
- Orders for service parts are recovering, as inventory was reduced in the second half of the previous fiscal year.

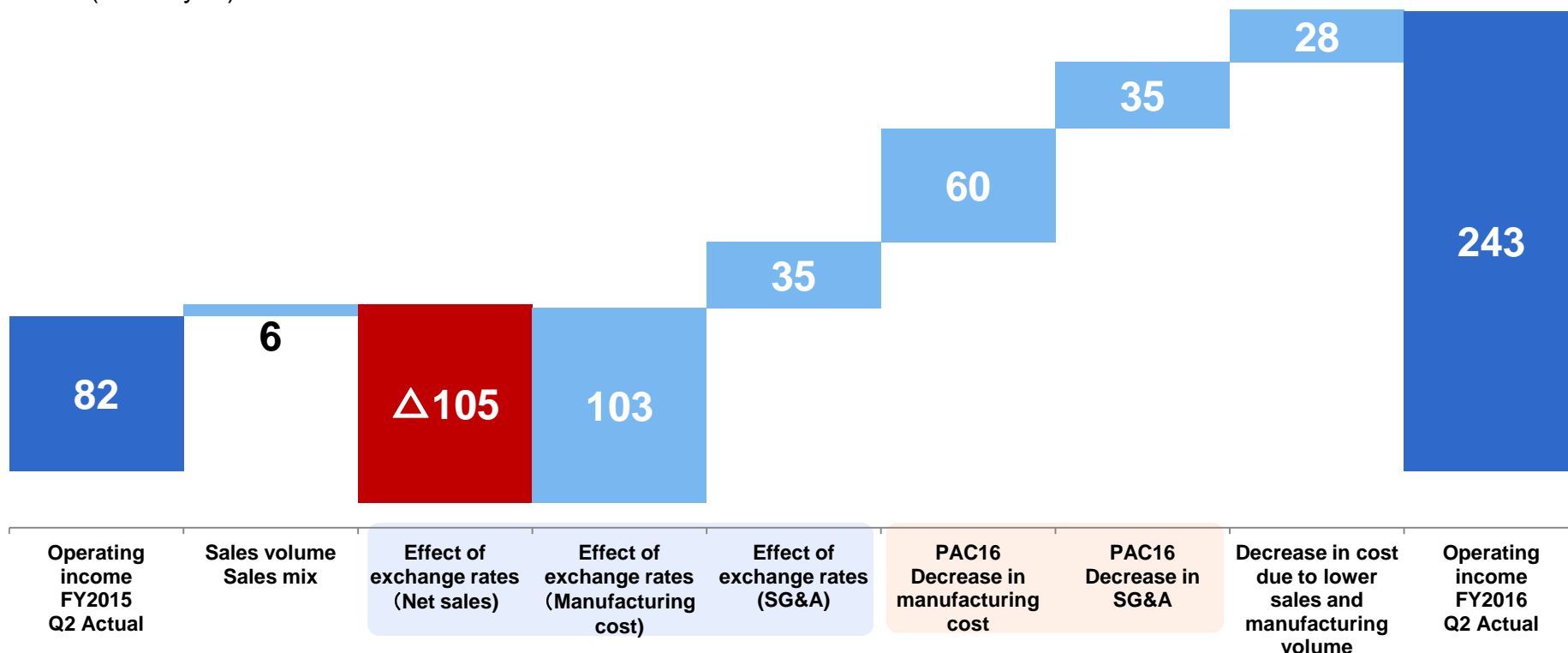
(Million yen)



Factors for changes in operating income (Q2: Jul. – Sep.)

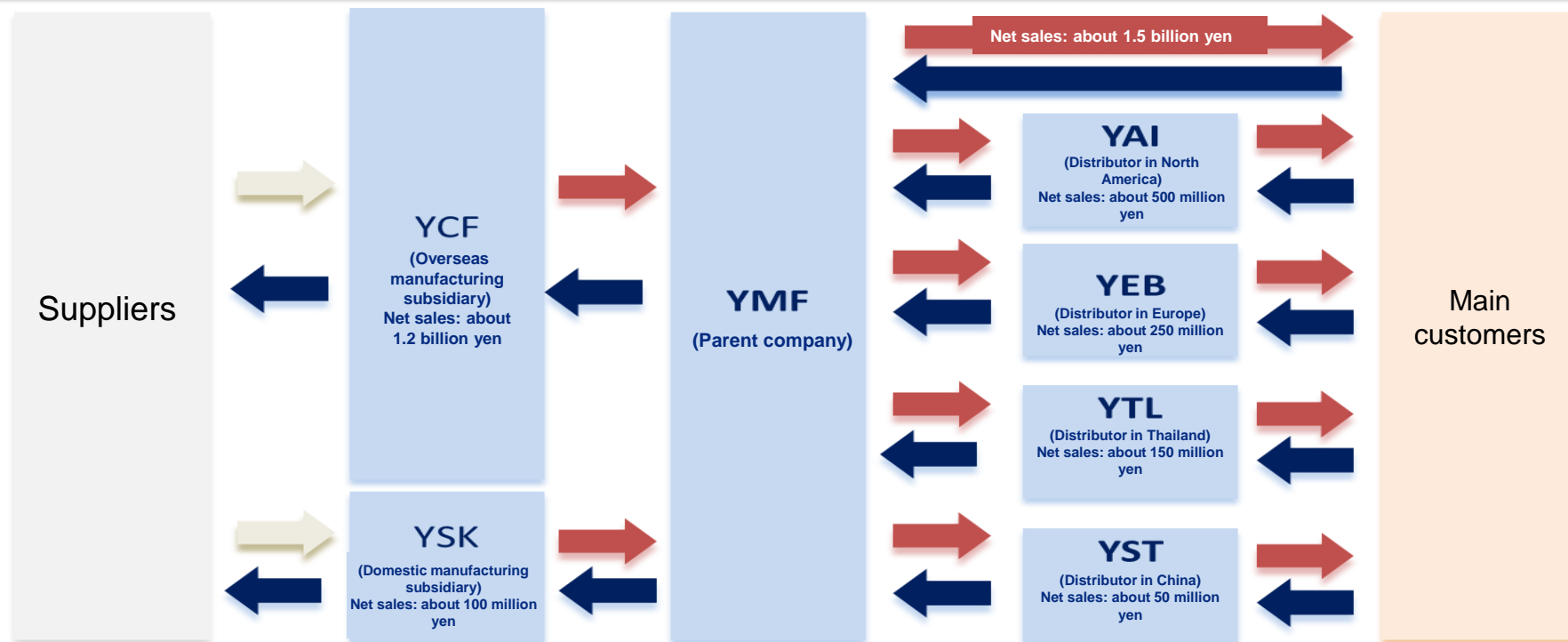
- Since the foreign exchange factor (yen appreciation) reduced procurement cost, the drop in sales was offset.
- Thanks to the effects of PAC16, our profit structure has become robust.

(Million yen)



Foreign exchange fluctuations for each currency (Q2: Jul. - Sep.)

- Foreign exchange risks were concentrated in the parent company YMF, reducing foreign exchange risks at subsidiaries.
- By using an operational hedge “marry and netting”, the net exchange position declined.



➤ Debt payment rate for each currency

- JPY 73%
- USD 20%
- PHP 5%
- Others 2%

➤ Debt collection rate for each currency

- JPY 78%
- USD 18%
- EURO 3%
- Others 1%

Conditions of exchange marry in Q2 (Jul. - Sep.)

- If the yen becomes 1 yen stronger, operating income will increase by about 1.3 million yen.
- The foreign exchange sensitivity is about 0.5%.

(unit: Million)

Currency	Results for Q2 (Jul. - Sep.)				Conversion to yen (JPY)	Case of the yen appreciation (10%)			Case of the yen depreciation (10%)		
	Incoming	Outgoing	Net	Average rate (JPY)		Average rate during period -10% (JPY)	Conversion to yen (JPY)	Effect (QTD)	Average rate during period +10% (JPY)	Conversion to yen (JPY)	Effect (QTD)
JPY	¥3,500.0	¥3,000.0	¥500.0	-	-	-	-	-	-	-	-
USD	\$7.8	\$7.8	\$0.0	¥102.4	¥0.0	¥92.16	¥0.00	¥0.00	¥112.64	¥0.00	¥0.00
EUR	€1.3	€0.9	€0.4	¥114.3	¥45.7	¥102.87	¥41.15	¥4.57	¥125.73	¥50.29	¥-4.57
PHP	0.0	99.6	-99.6	¥2.2	¥-219.1	¥1.98	¥-197.21	¥-21.91	¥2.42	¥-241.03	¥21.91
THB	19.3	6.3	13.0	¥2.9	¥37.7	¥2.61	¥33.93	¥3.77	¥3.19	¥41.47	¥-3.77
Total	-	-	-	-	¥-135.7	-	¥-122.13	¥-13.57	-	¥-149.27	¥13.57

FY2016 1H Results (Apr. – Sep.)

- Since the foreign exchange factor (yen appreciation) reduced procurement cost, the drop in sales was offset.
- Thanks to the effects of PAC16, our profit structure has become resilient.

		FY2015 Q2	FY2016 Q2	FY2016 Q2	YoY change	
		Actual	Forecast	Actual	Amount	%
(Million yen)						
Net sales		5,128	4,298	4,783	△ 344	△6.7%
Operating income		170	142	436	265	155.1%
Net income		71	83	273	201	282.0%
Exchange rate	USD	118.2	120.0	105.3	△ 12.9	△10.9%
	EUR	135.1	130.0	118.2	△ 16.9	△12.5%

* The actual exchange rates are average values during the period.

Sales by product 1H Results (Apr. – Sep.)

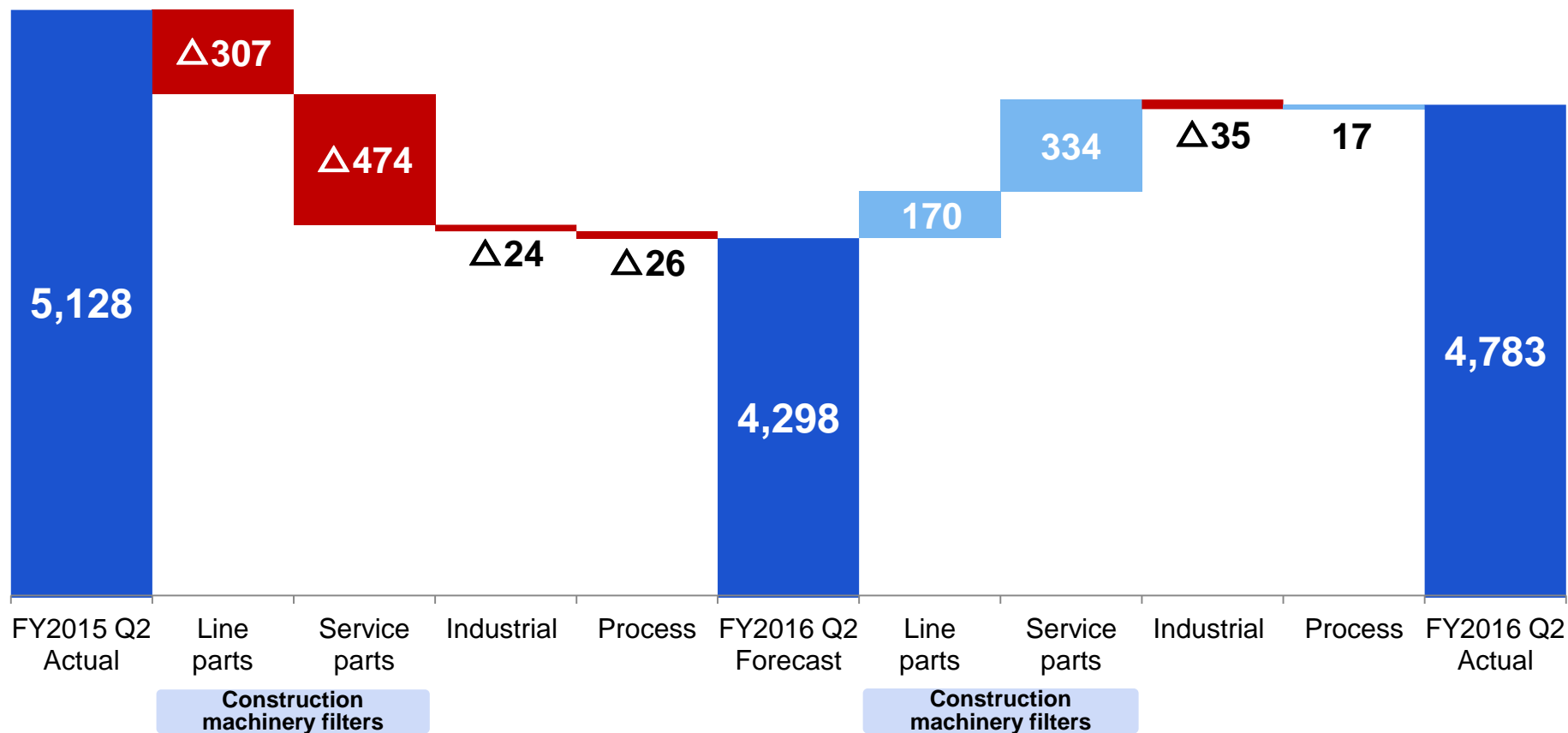
- The sales for Q2 decreased, but there is a sign of bottoming out.

	FY2015 Q2	FY2016 Q2	FY2016 Q2	YoY change	
	Actual	Forecast	Actual	Amount	%
(Million yen)					
Construction machinery filters	4,450	3,670	4,174	△ 275	△6.2%
Line parts	1,875	1,568	1,738	△ 136	△7.3%
Service parts	2,575	2,101	2,436	△ 139	△5.4%
Industrial filters	268	244	208	△ 59	△22.2%
Process filters	408	382	400	△ 8	△2.2%
Total of sales	5,128	4,298	4,783	△ 344	△6.7%

Factors for changes in sales (1H: Apr. – Sep.)

- The sales of line parts recovered as the public works in the Chinese market bounced back.
- The sales of service parts recovered after inventory adjustments.

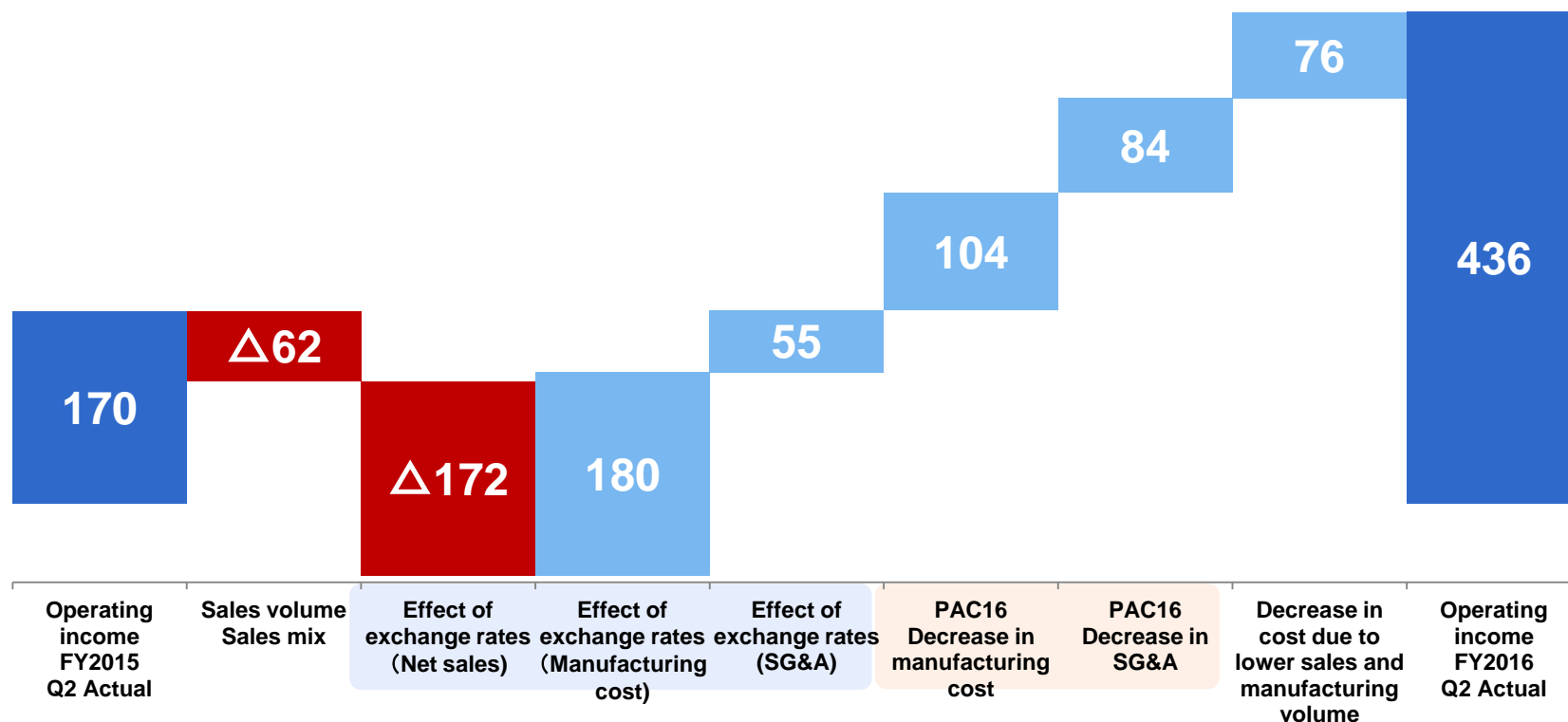
(Million yen)



Factors for changes in operating income (1H: Apr. – Sep.)

- Since the foreign exchange factor (yen appreciation) reduced procurement cost, the drop in sales was offset.
- Thanks to the effects of PAC16, our profit structure has become robust.

(Million yen)



- The company-wide project for reducing manufacturing cost and SG&A is underway.

Reduction in manufacturing cost



[Material cost]

- Streamlining of procurement and **designing (including drawing) processes**
- Quality stabilization based on machinery and equipment
- Reduction of filtering media waste

[Manufacturing expenses]

- Reduction of the expenses for consumables and cost of utilities

Reduction in SG&A



[Expenses]

- Reduction of material cost through the review of the material cost for prototypes
- Streamlining, rationalization, etc. of business trip plans

Balance Sheet

- Investments and other assets increased. (We acquired highly fluid and safe securities worth 1.4 billion yen.)
- We secured a stable financial base, including the commitment line contract for 3 billion yen.

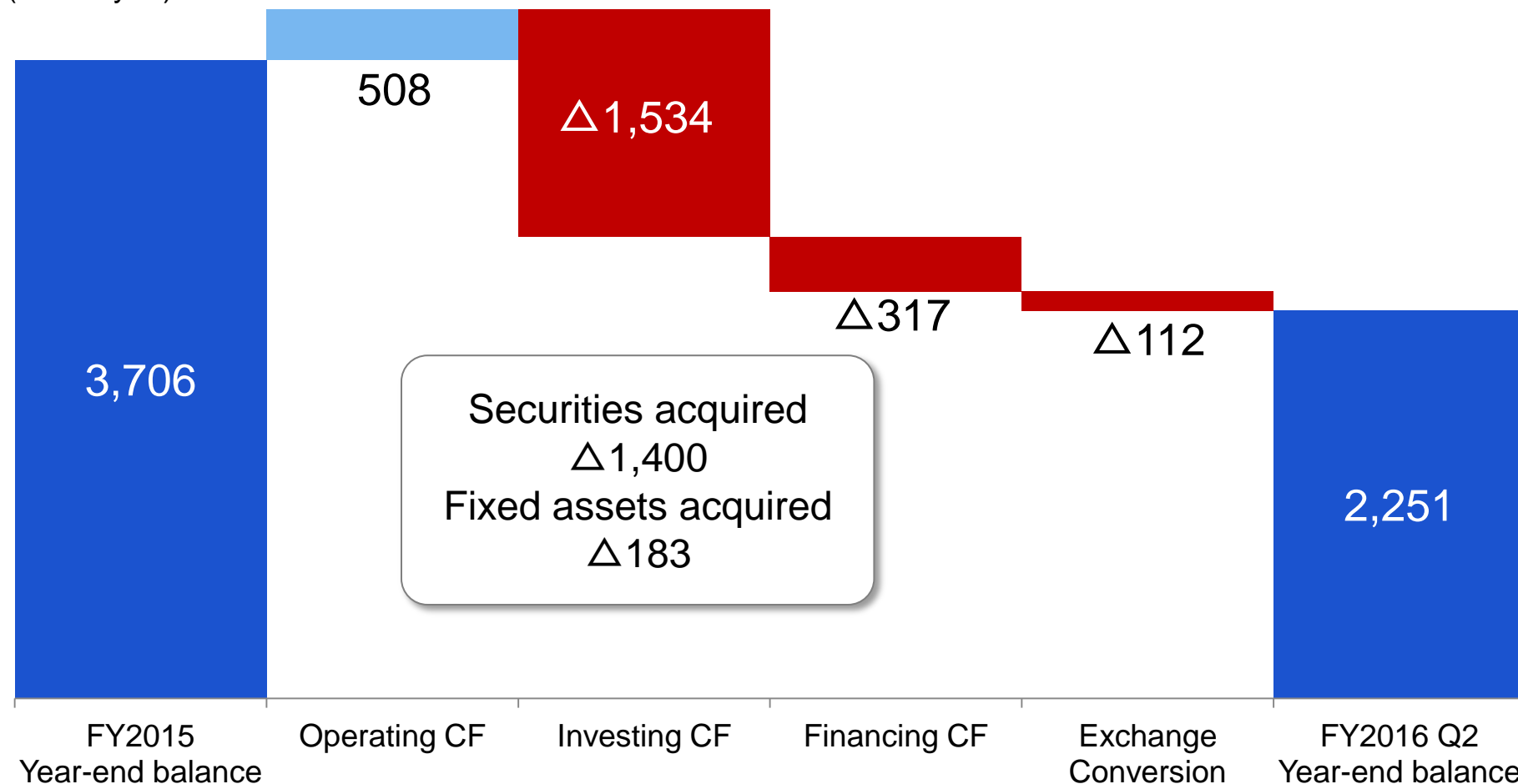
(Million yen)	End-FY2015	FY2016 Q2	Change	Change in ratio		End-FY2015	FY2016 Q2	Change	Change in ratio
Current assets	7,604	6,184	△ 1,419	△23.0%	Current liabilities	1,704	1,974	270	13.7%
Cash and deposits	3,806	2,251	△ 1,554	△69.1%	Notes and accounts payable-trade	796	917	121	13.2%
Notes and accounts receivable-trade	1,880	2,068	187	9.1%	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	1,364	△ 100	△7.4%	Others	407	557	149	26.8%
Others	452	500	48	9.6%	Fixed liabilities	1,617	1,373	△ 244	△17.8%
Fixed assets	1,919	3,389	1,470	43.4%	Corporate bonds	800	700	△ 100	△14.3%
Tangible fixed assets	1,322	1,239	△ 83	△6.7%	Long-term loans payable	450	300	△ 150	△50.0%
Intangible fixed assets	97	202	105	51.9%	Net defined benefits liability	164	172	8	4.8%
Investments and other assets	499	1,947	1,448	74.4%	Others	203	201	△ 2	△1.2%
Total assets	9,523	9,574	50	0.5%	Total net assets	6,201	6,225	23	0.4%
					Total of liabilities and net assets	9,523	9,574	50	0.5%

*Shareholders' equity ratio 65.1% 65.0%

Factors for changes in cash flows

- The company-wide project for controlling manufacturing cost and SG&A is underway.

(Million yen)



Ⅱ . FY2016 Full-year Forecasts

Introduction of PAC16 to surely earn profit

Outlook for the Chinese market

China's policy for supporting the market after the economic slowdown
Upcoming demand for the update of existing construction machinery

Foreign exchange conditions

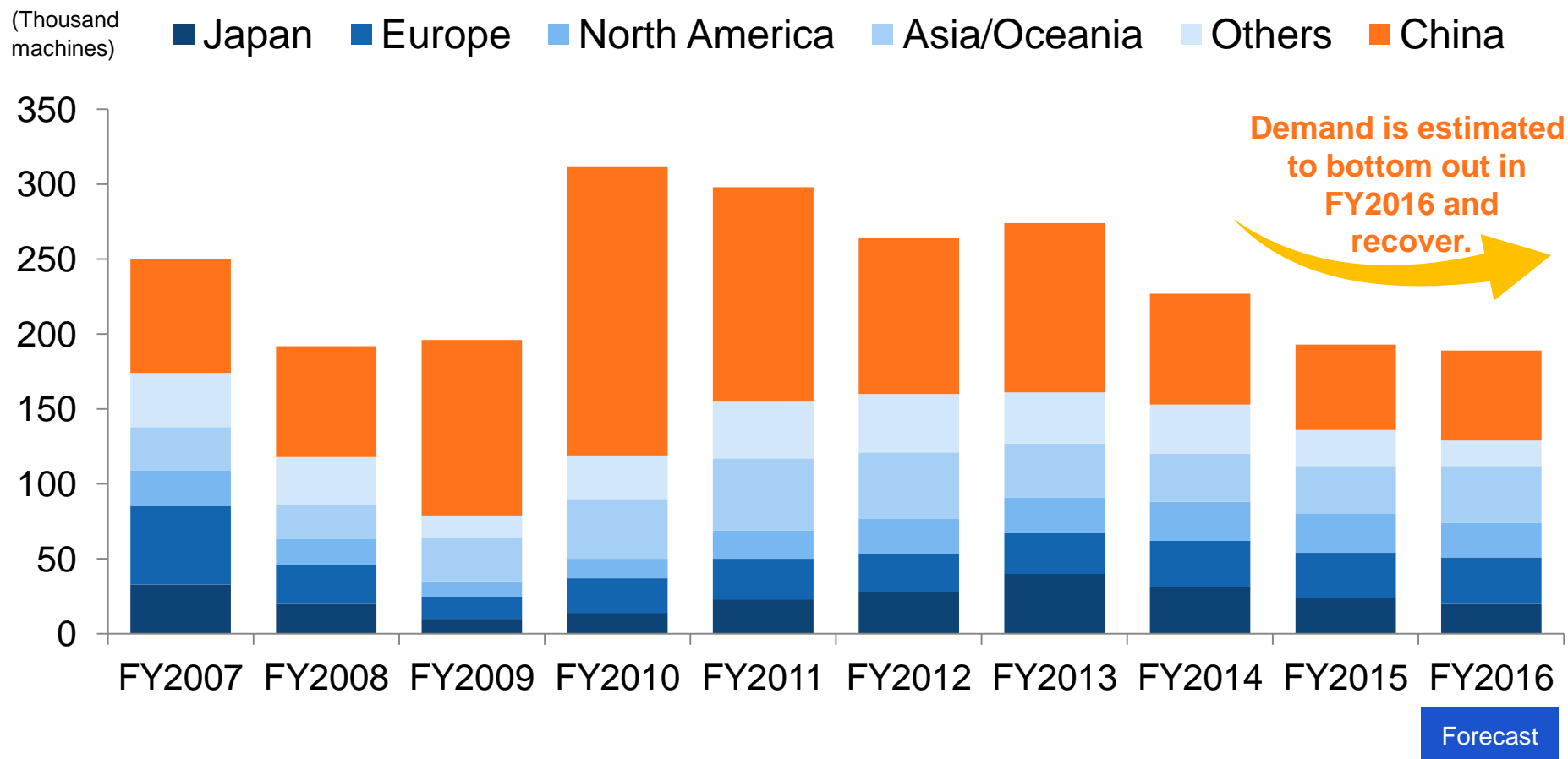
Initial forecast: 1 dollar = 120 yen (May 13)
Revised forecast: 1 dollar = 100 yen (Nov. 4)
Risk hedge through an operational hedge, foreign exchange netting and marry

Trend of service parts

Thanks to China's policy for supporting public investment, the operation hours of construction machinery increased, and the number of business inquiries is stable.

Business environment / Demand for new excavators

- The Chinese construction machinery market is estimated to recover due to the public works promoted for boosting the economy.



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

Outline of activities for expanding sales

		Keywords in our policy	Concrete measures	Evaluation of effects
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"> ■ Stage of collecting actual product data
		<ul style="list-style-type: none"> ■ Proposal for effective solutions 	<ul style="list-style-type: none"> ■ Targeting not only individual filters but also an entire hydraulic system 	<ul style="list-style-type: none"> ■ Stage of collecting test data
	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 	<ul style="list-style-type: none"> ■ To target the areas where the ratio of genuine products is considered low, such as Thailand and India
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 	<ul style="list-style-type: none"> ■ Progress of the cooperative business with partners. Reduction of the cost of existing products
Process filters		<ul style="list-style-type: none"> ■ Diversification of product series 	<ul style="list-style-type: none"> ■ Cultivation of the electronic field 	<ul style="list-style-type: none"> ■ Start of development for enriching our product lineup

- Strive to refine 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

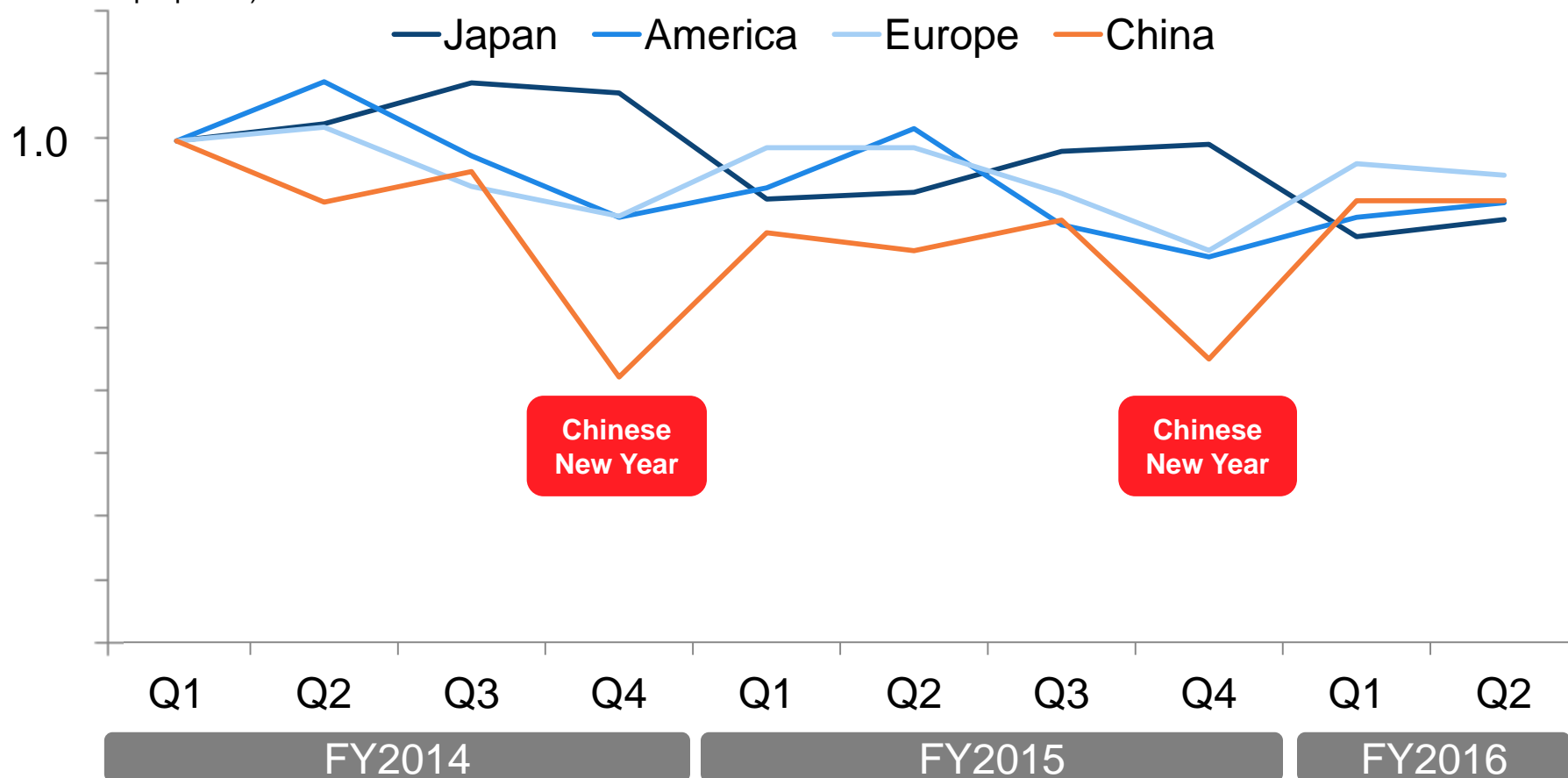
Ratio of genuine products

Quality and recognition level
of our genuine products

Construction machinery operation hours

- The operation hours of construction machinery in China in FY2016 recovered from the first half of the previous 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)

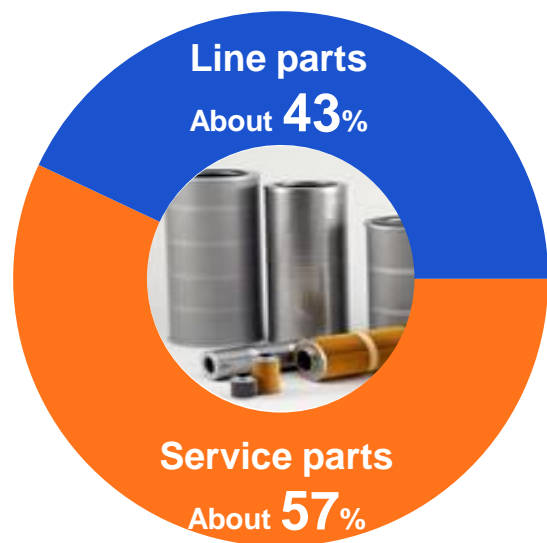


(Reference) Prepared by YAMASHIN-FILTER based on the Nomura Securities analyst report

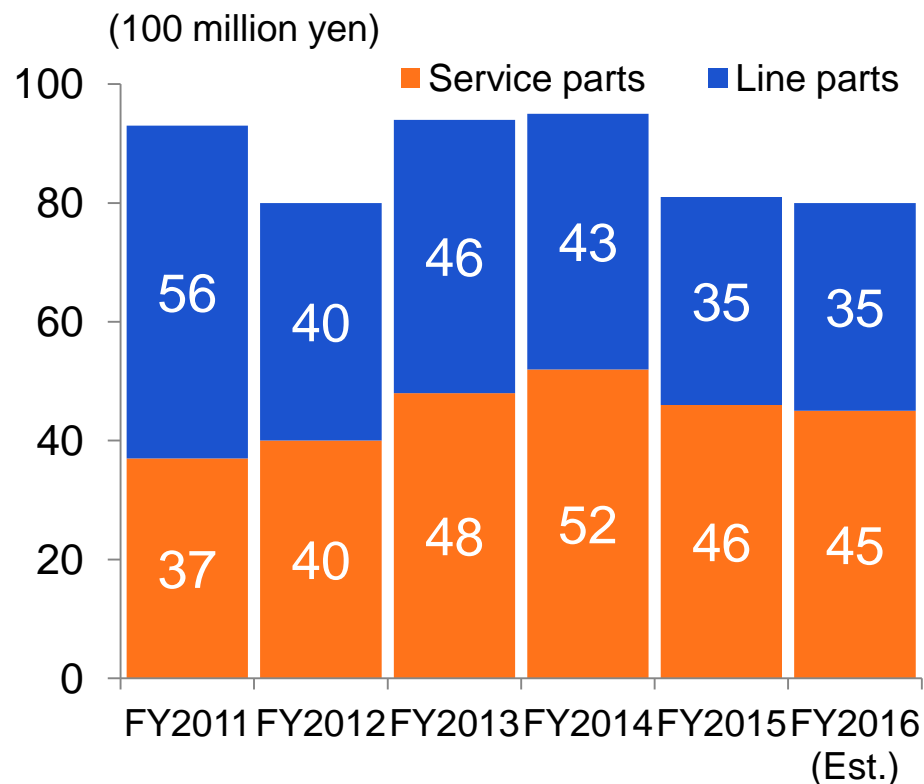
Demand for supply parts

- The business of service parts is 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



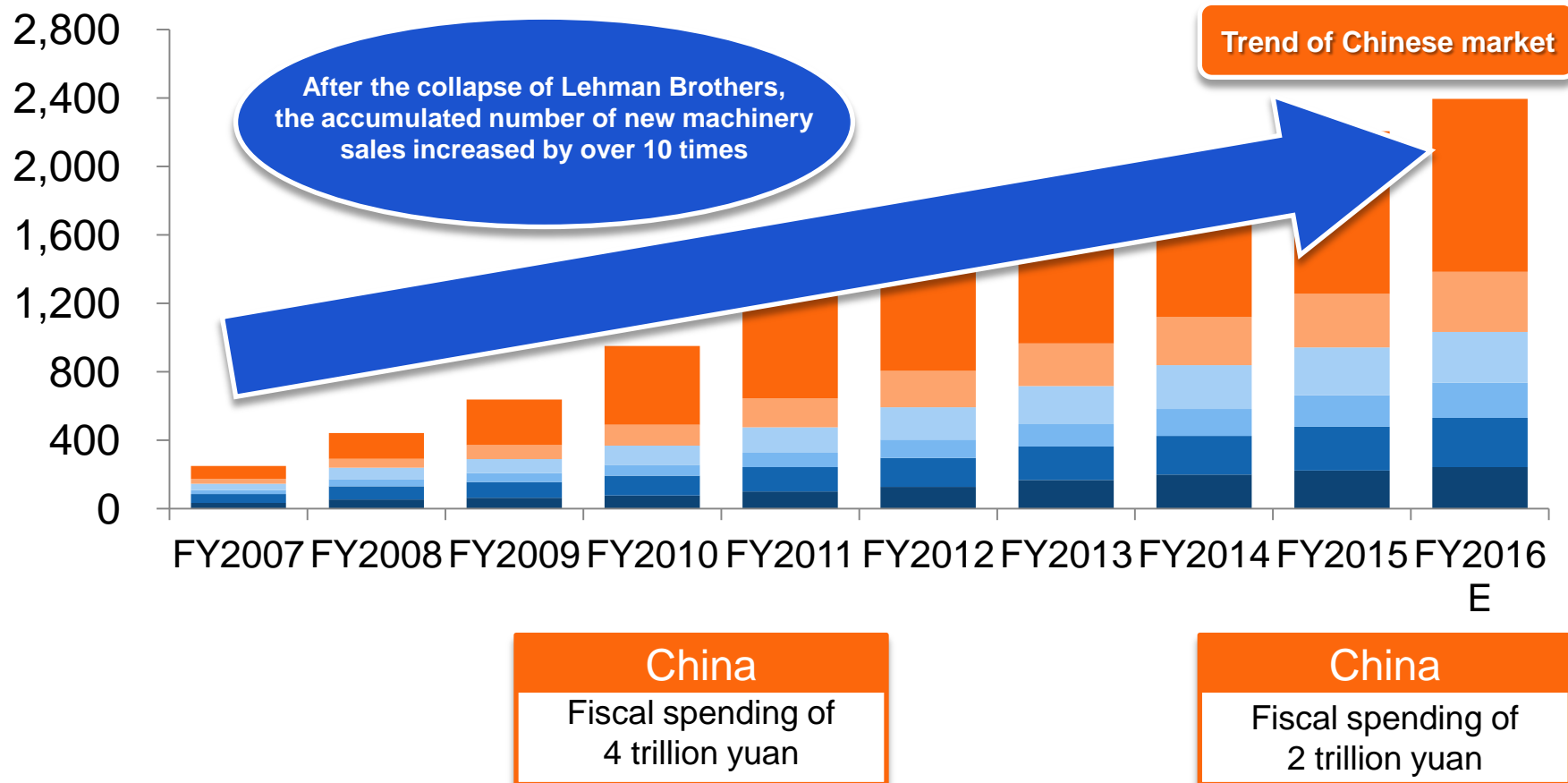
*Figures for FY2011 are on a non-consolidated basis.

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



FY2016 Full-year business forecasts

- Considering the recovery of the Chinese construction machinery market, profits forecasts are revised upward.

		FY2015	FY2016	FY2016	YoY change	
		Results	Initial forecast (May 13, 2016)	Revised forecast (Nov. 4, 2016)	Amount	%
(Million yen)						
Net sales		9,458	8,670	9,345	△ 113	△1.2%
Operating income		407	344	780	372	91.5%
Net income		183	181	464	280	152.2%
Exchange rate	USD	120.1	120.0	100.0	△20.1	△16.7%
	EUR	132.6	130.0	110.0	△22.6	△17.0%

FY2016 Full-year sales forecasts by product

- The sales of line parts are estimated to grow year on year.
- As for service parts, we will pay attention to the trend after the Chinese New Year.

(Million yen)	FY2015	FY2016	FY2016	YoY change	
	Actual	Initial forecast (May 13, 2016)	Revised forecast (Nov. 4, 2016)	Amount	%
Construction machinery filters	8,174	7,403	8,105	△ 68	△0.8%
Line parts	3,553	3,062	3,595	42	1.2%
Service parts	4,620	4,340	4,509	△ 110	△2.4%
Industrial filters	468	483	459	△ 8	△1.9%
Process filters	815	783	779	△ 35	△4.4%
Total of sales	9,458	8,670	9,345	△ 113	△1.2%

Changes in half-yearly sales in FY2016

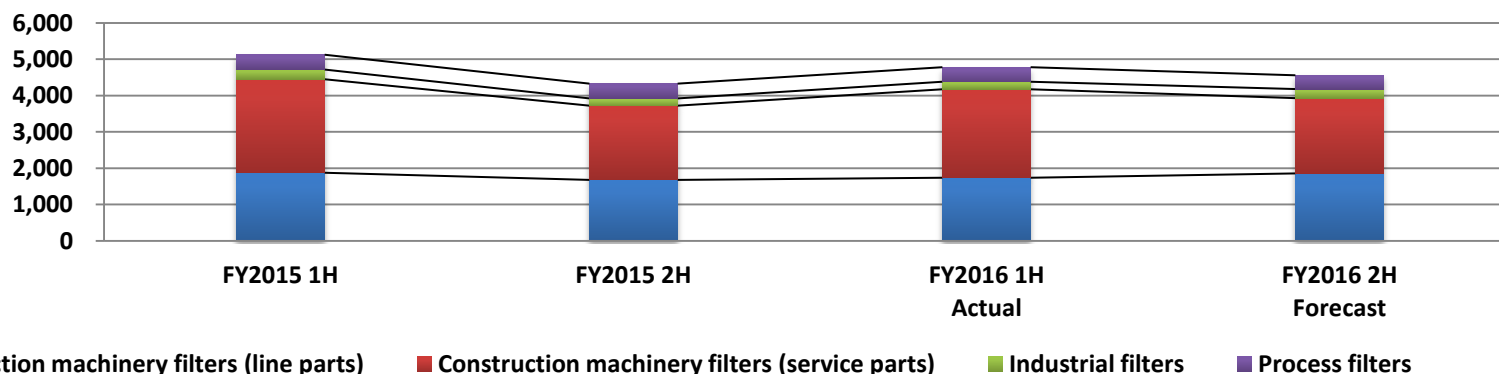
- The demand for line parts is estimated to be strong in the second half.
- The budget is conservative, because it is necessary to observe whether the sales of service parts will recover in the Chinese market.

(Million yen)

	FY2015 Results			FY2016 Forecast			Rate of growth from 1H of FY2016
	FY2015 1H	FY2015 2H	FY2015 Total	FY2016 1H Actual	FY2016 2H Forecast	FY2016 Full-year Forecast	
Construction machinery filters	4,450	3,723	8,174	4,174	3,930	8,105	-5.8%
Line parts	1,875	1,678	3,553	1,738	1,857	3,595	6.8%
Service parts	2,575	2,045	4,620	2,436	2,073	4,509	-14.9%
Industrial filters	268	200	468	208	251	459	20.7%
Process filters	408	407	815	400	379	779	-5.3%
Total	5,128	4,330	9,458	4,783	4,559	9,345	-4.7%

Sales: Million yen

Changes in sales of each product

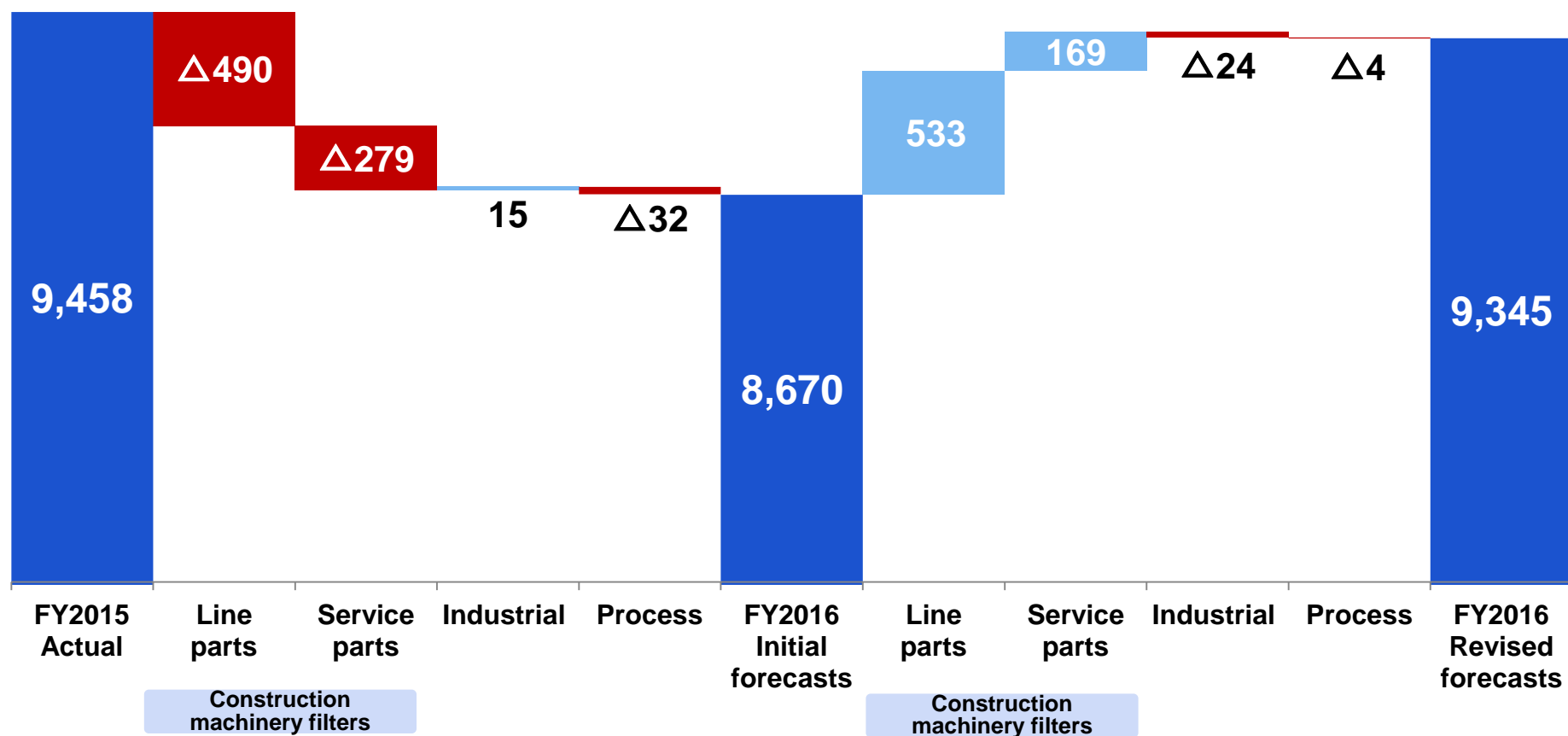


■ Construction machinery filters (line parts) ■ Construction machinery filters (service parts) ■ Industrial filters ■ Process filters

Factors for changes in sales

- The sales of line parts are estimated to recover. For service parts, we will conduct sales promotion.

(Million yen)



Project PAC 16

- To keep reducing costs, to improve our profit structure

PAC16

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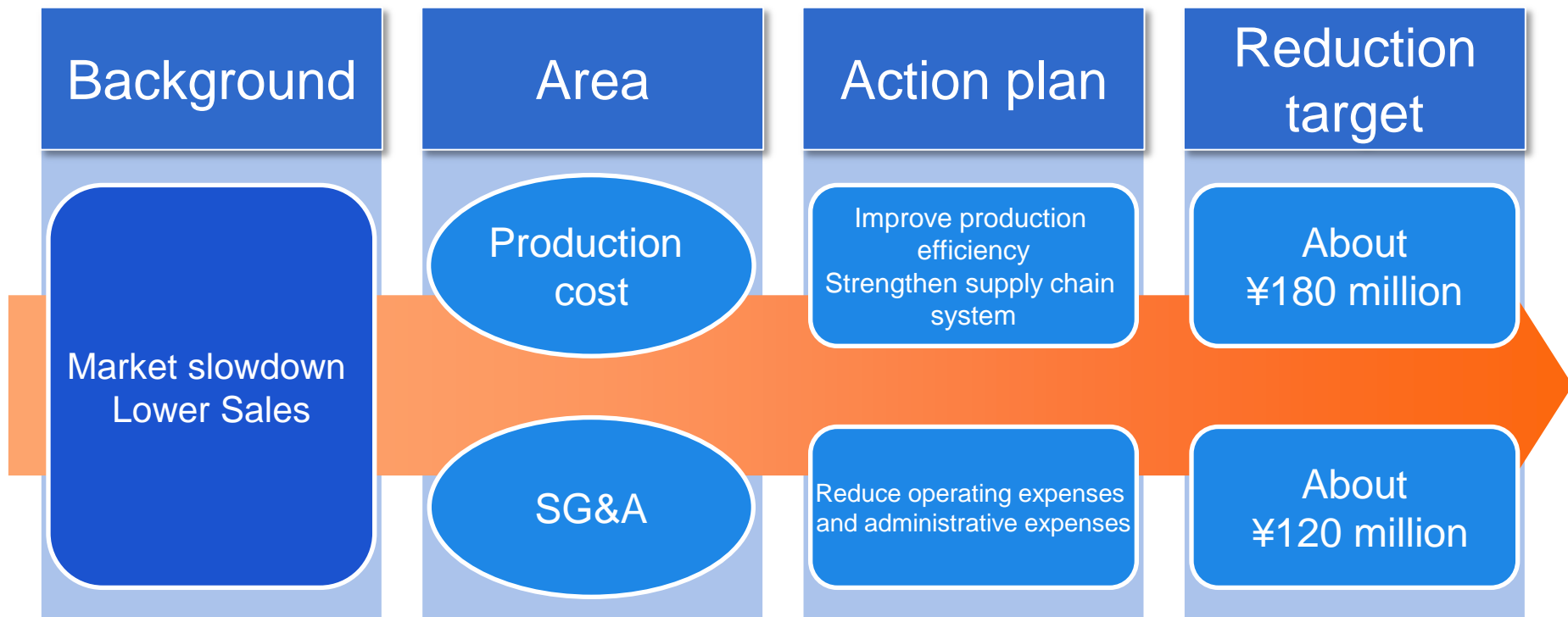
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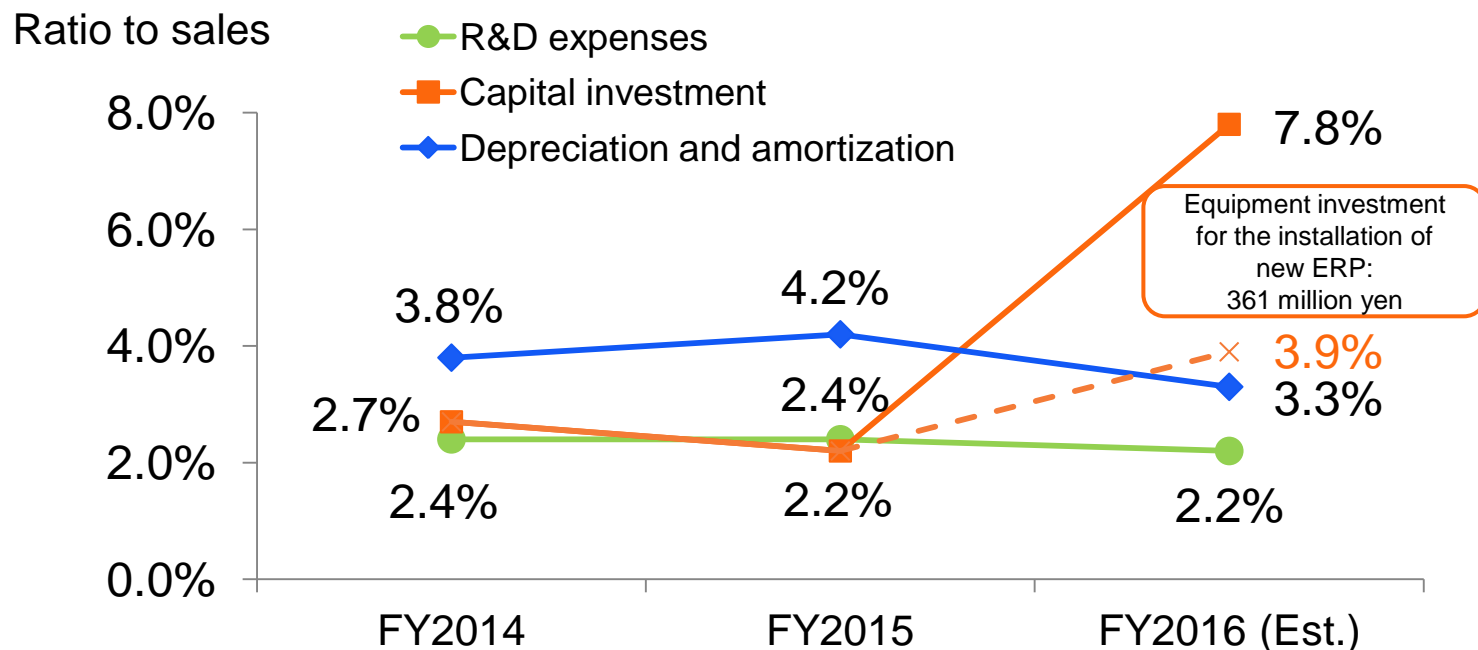
16






*The reduction target was lowered from the initial plan (May 13, 2016).

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

- Capital investment is almost as usual, excluding the cost for installing new ERP.



(Million yen)

 R&D expenses	254	225	205
 Capital investment	288	207	733
 Depreciation and amortization	407	393	310

Shareholder return (released on Nov. 4, 2016)

- The interim dividend of 5 yen is continued, the term-end dividend is changed from 5 yen to 7 yen, and so the annual dividend increases to 12 yen.

Dividend per share	FY2014	FY2015	FY2016 (initial)	FY2016 (revised)
	19 yen ^{*1}	10 yen	10 yen	12 yen ^{*2}
DOE	1.9%	2.0%	2.0%	2.4% ^{*2}

*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**.

*2: The figures for FY2016 are current estimated values.

III. Expansion of Business Portfolio

—Turn rising needs for environmental protection into a business opportunity—

Supply of products to Sany Heavy Machinery

- It is the first time for us to supply products to a local manufacturer in China on a full-scale basis.

About Sany Heavy Machinery

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

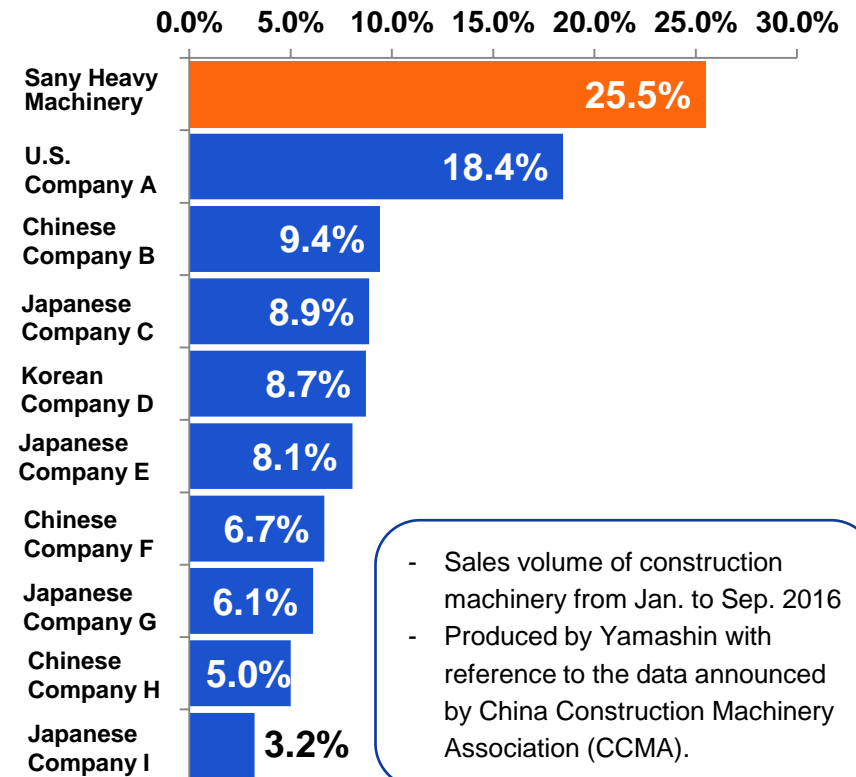
Previous

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

This time

Demand got into full swing from Oct.

Share of sales of construction machinery in China



Trend of the Chinese market in the past few years

Response to
restrictions on
exhaust gases

Measures against global warming accelerated after the conclusion of the Paris agreement

Actual fuel situation

China plans to shift from Tier 3 to Tier 4 for the restrictions on exhaust gases. The engines of Tiers 3 and 4 require clean fuel for complete combustion, but fuel supply systems have not been developed to a sufficient degree in China.

Situation of
customers

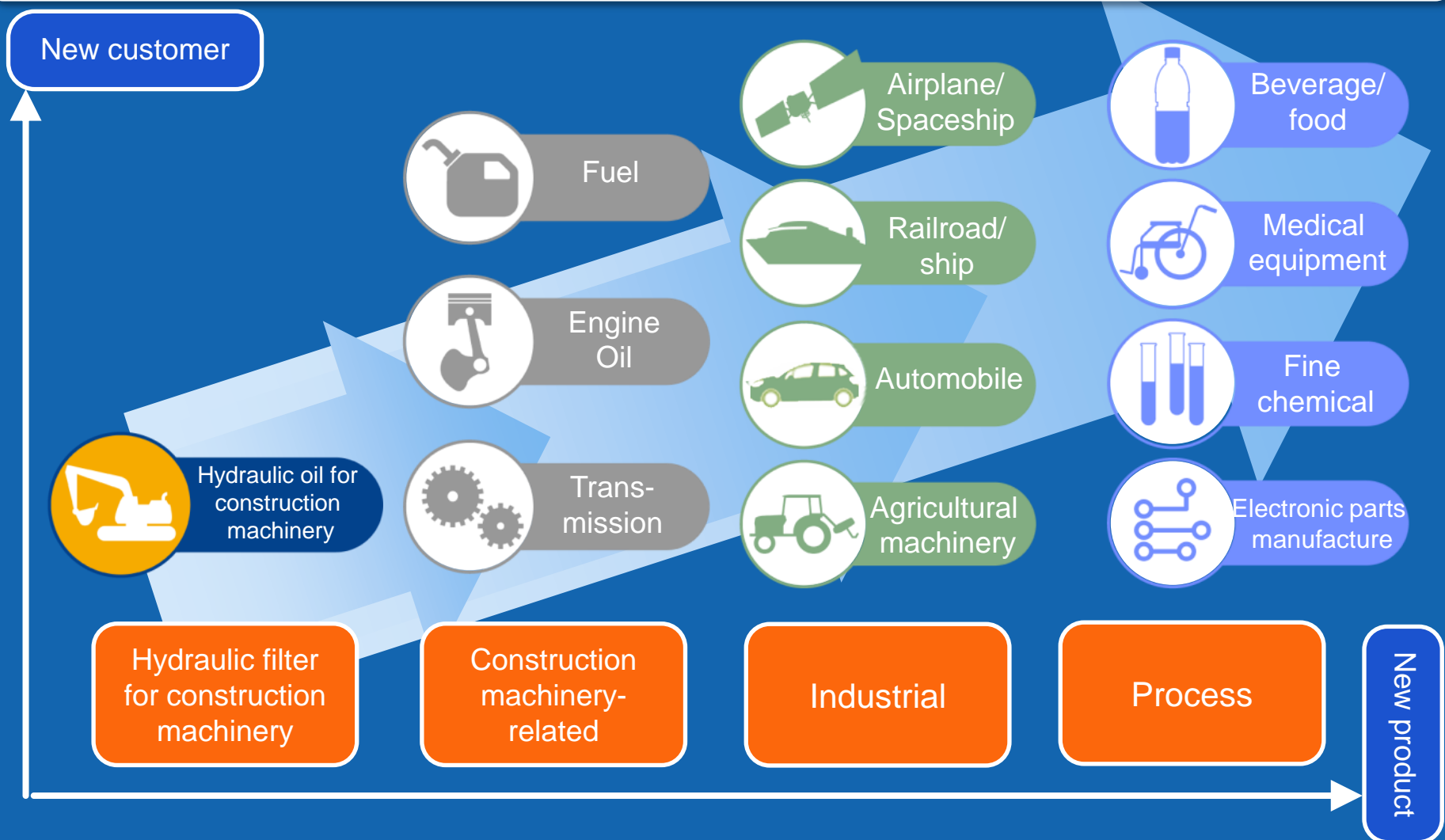
In China, Sany Heavy Machinery has the largest share. It has so far used filters made in China.

Future outlook

Since response to restrictions on exhaust gases is demanded, Chinese companies are changing functional parts, including filters. As the prime example, Sany Heavy Machinery adopted our filters.

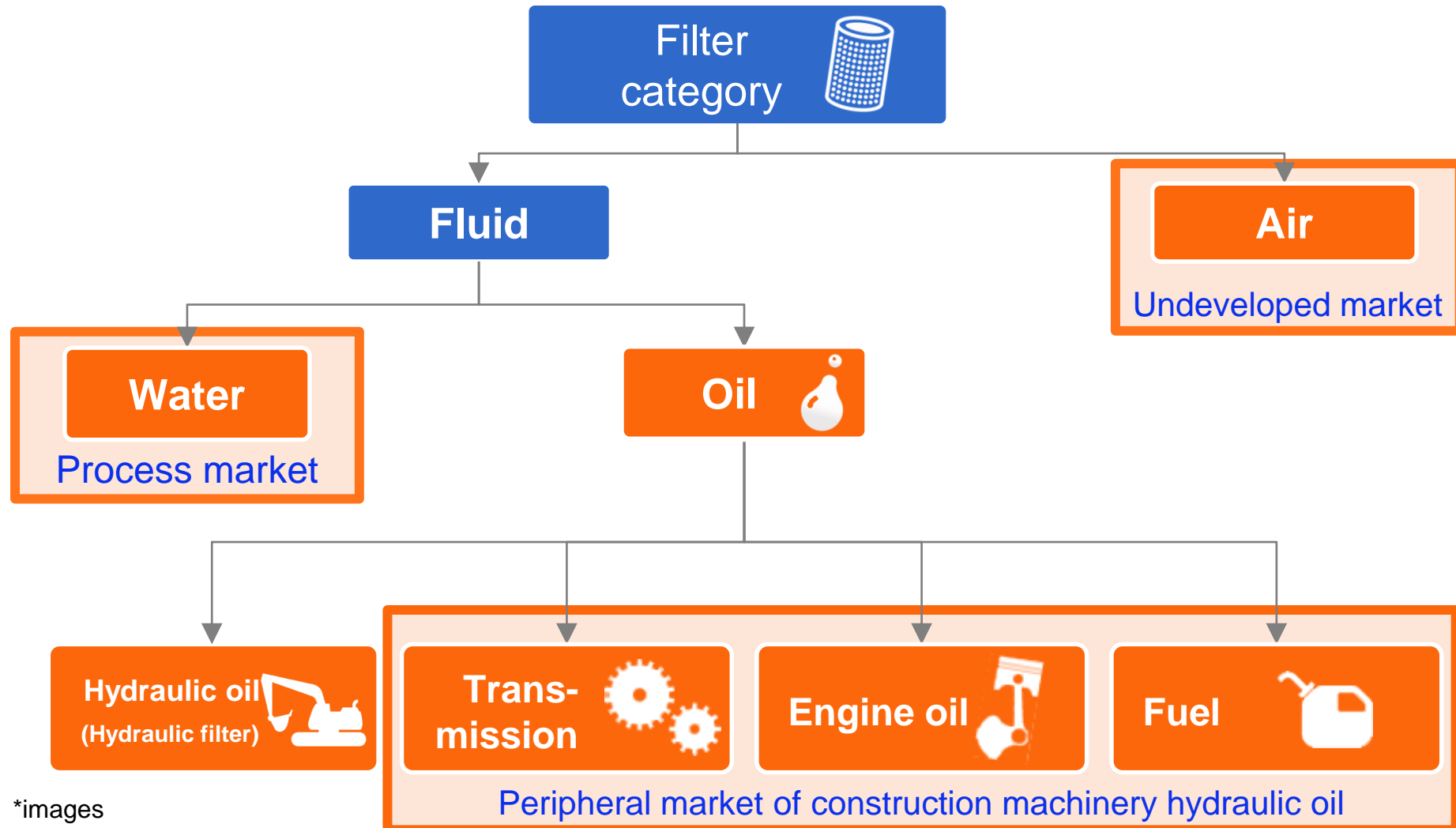
Expansion of business portfolio

- We strive to expand our business portfolio by further developing peripheral markets and entering into the new field.



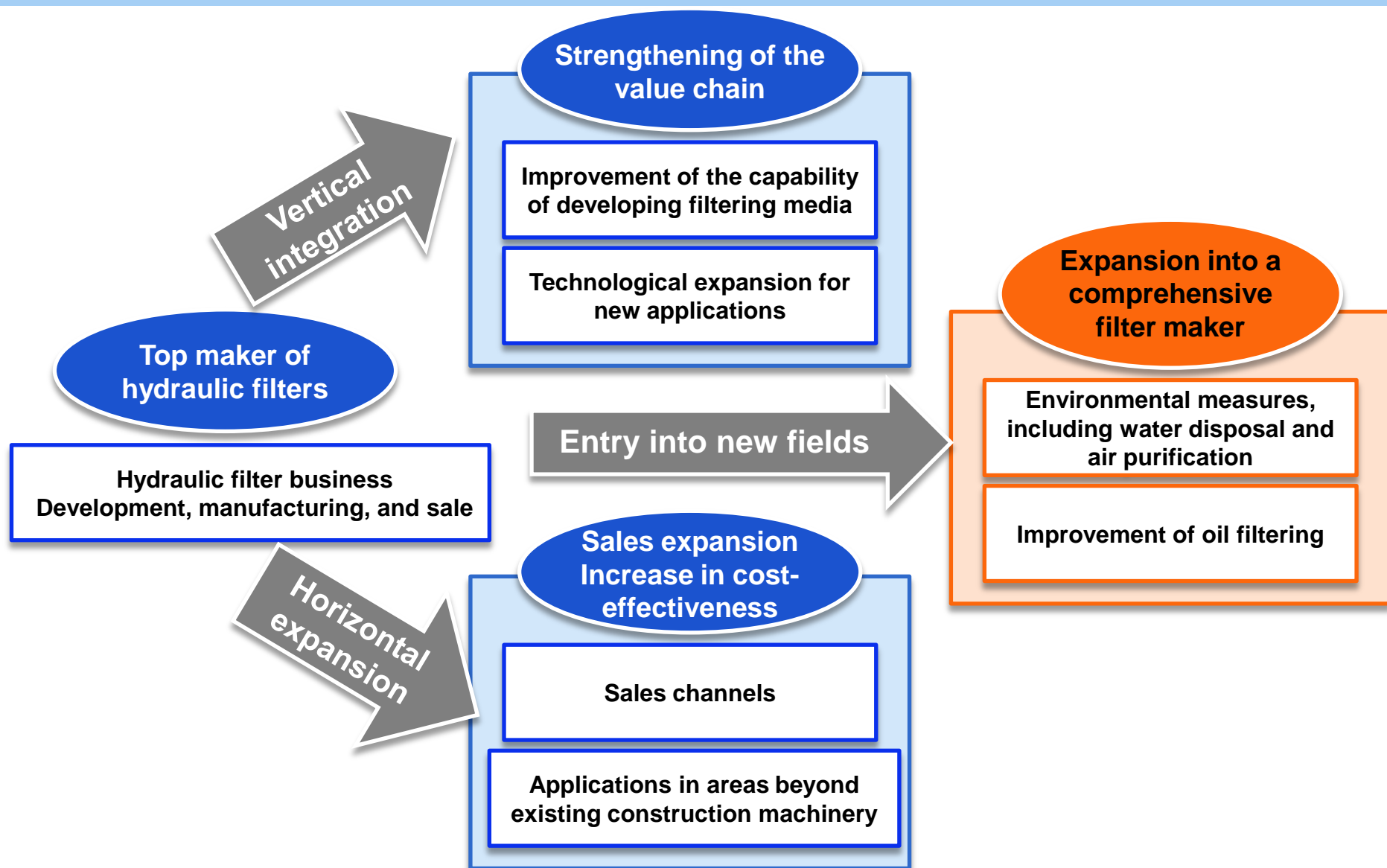
Expansion of Business Portfolio

- We also aim to expand our business in the fields of fluid and air.



*images

Path to Further Growth



FY2016 Q2 Results

- As there were signs of recovery of public investment in the Chinese market, and PAC16 was promoted, income grew considerably.

FY2016 full-year Forecast

- The full-year forecast has been revised upwardly, because of the recovery of the Chinese market and the continuance of the effects of cost reduction. (Nov. 4, 2016)

Expansion of the business portfolio

- As for the existing business, we expect that Chinese local enterprises will adopt our products more, in response to tightening restrictions on exhaust gases.
- We aim to grow based on not only horizontal expansion but also vertical integration.

Reference materials

Sales by region 1H Results (Reference)

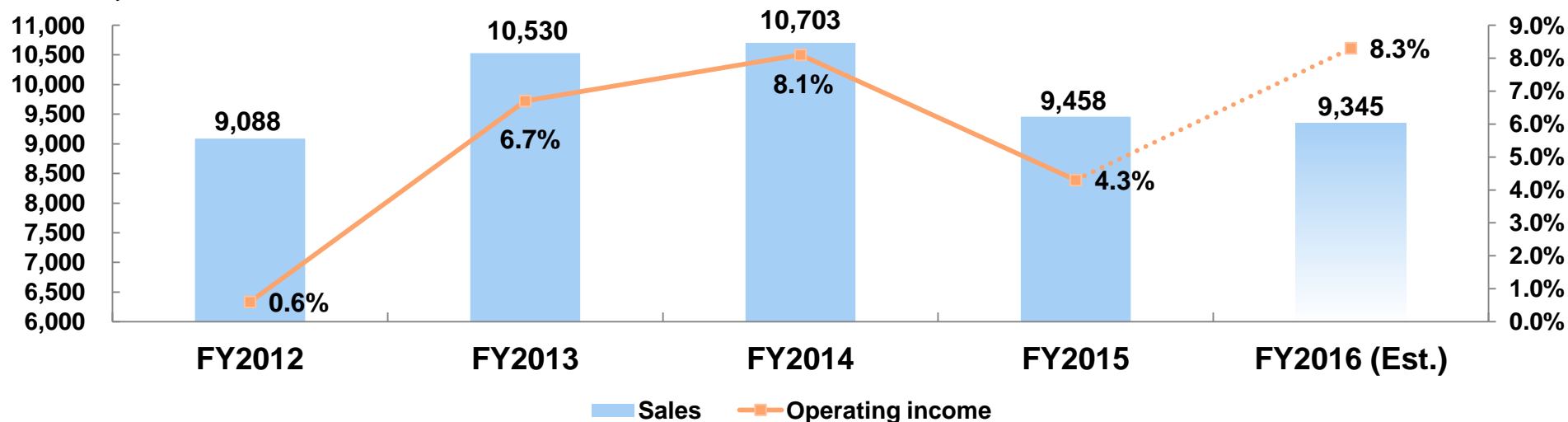
- Note: Since sales are calculated based on the destinations of our invoices, our data differ from actual regional market trends.

(Million yen)	FY2015 Q2 Actual		FY2016 Q2 Actual		YoY change	
	Amount	%	Amount	%	Amount	%
Japan	2,727	53.2%	2,553	53.4%	△ 174	△6.4%
North America	969	18.9%	816	17.1%	△ 153	△15.8%
China	222	4.3%	337	7.1%	114	51.6%
Asia	531	10.4%	514	10.8%	△ 16	△3.1%
Europe	592	11.5%	531	11.1%	△ 60	△10.3%
Other (Middle East etc.)	84	1.7%	30	0.6%	△ 54	△64.5%
Total of sales	5,128	100.0%	4,783	100.0%	△ 344	△6.7%

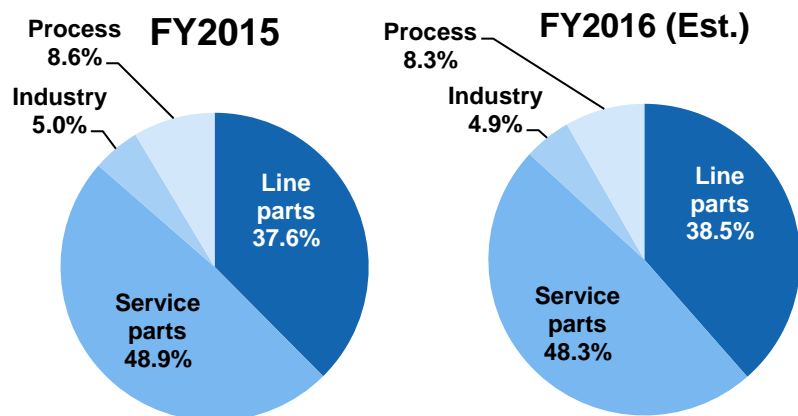
Financial highlights

Changes in sales and operating income margin

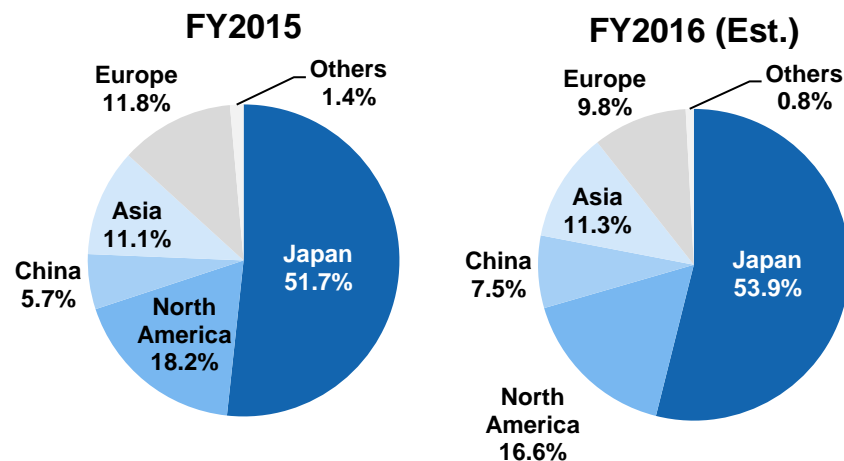
(Million yen)



Sales by product



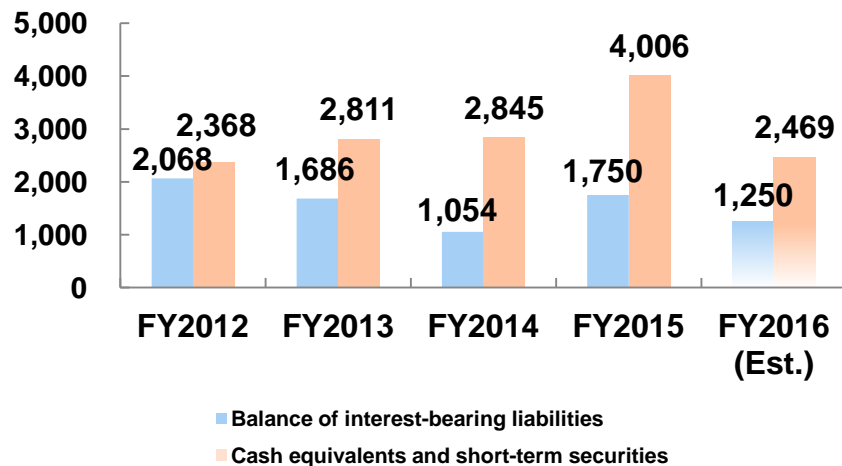
Sales by region



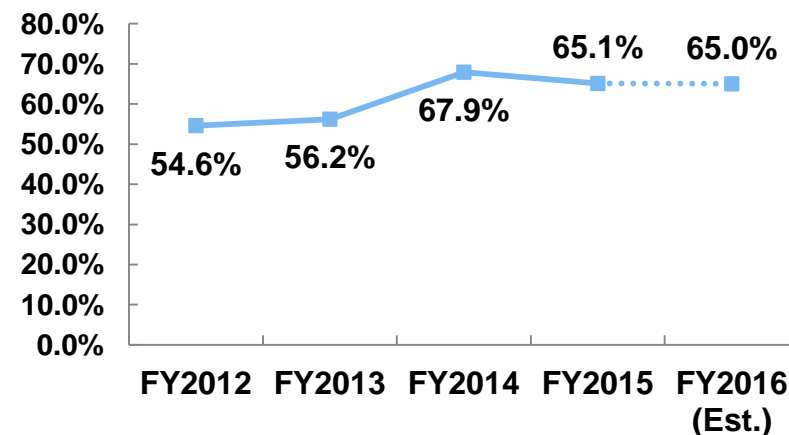
Financial highlights

Balances of interest-bearing liabilities, cash equivalents, and short-term securities

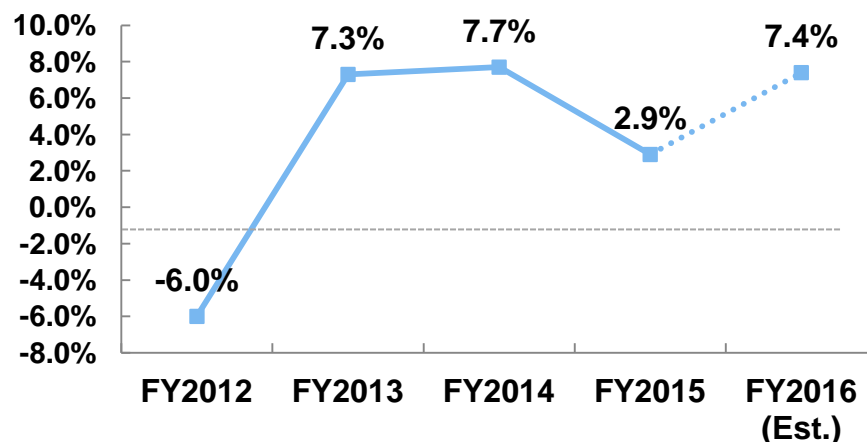
(Million yen)



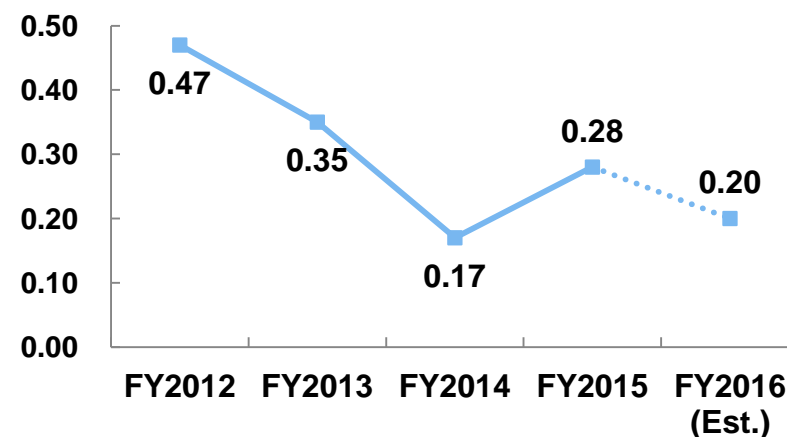
Ratio of shareholders' equity



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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