

YAMASHIN-FILTER CORP. Financial Results for the Third Quarter of the Fiscal Year Ending March 2017

**Recovery in the Chinese construction machinery market becomes evident.
Making upward revision to the full-year forecasts.**

**February 3, 2017
(Stock code:6240)**

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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

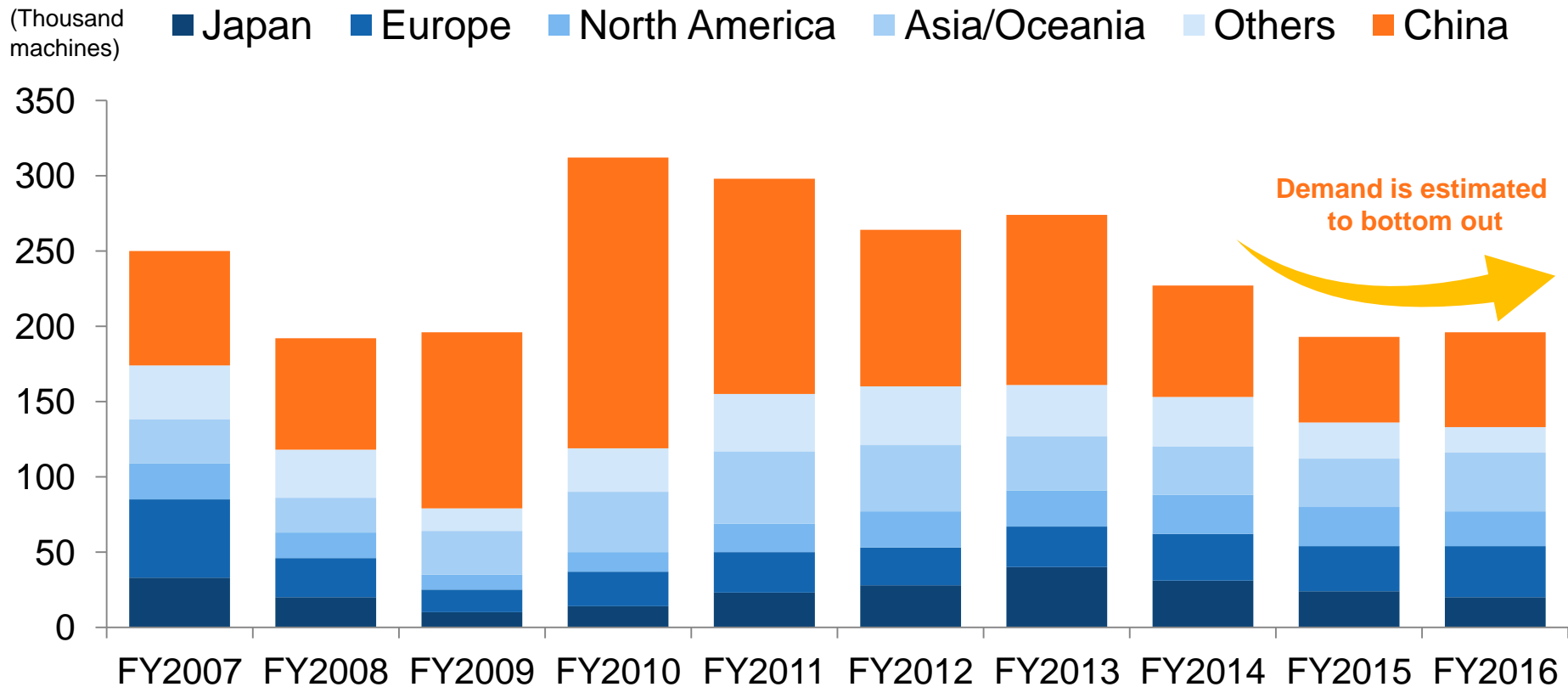
- Sales are calculated based on the destinations of our invoices, and so our data may differ from the actual regional market trends.

PAC16 (Promptly Activated Cost reduction 2016)

- The company-wide cost reduction project due to the sluggish sales

Business environment / Demand for new excavators

- The Chinese construction machinery market is expected to recover, driven by public works as a part of economic stimulation measures.



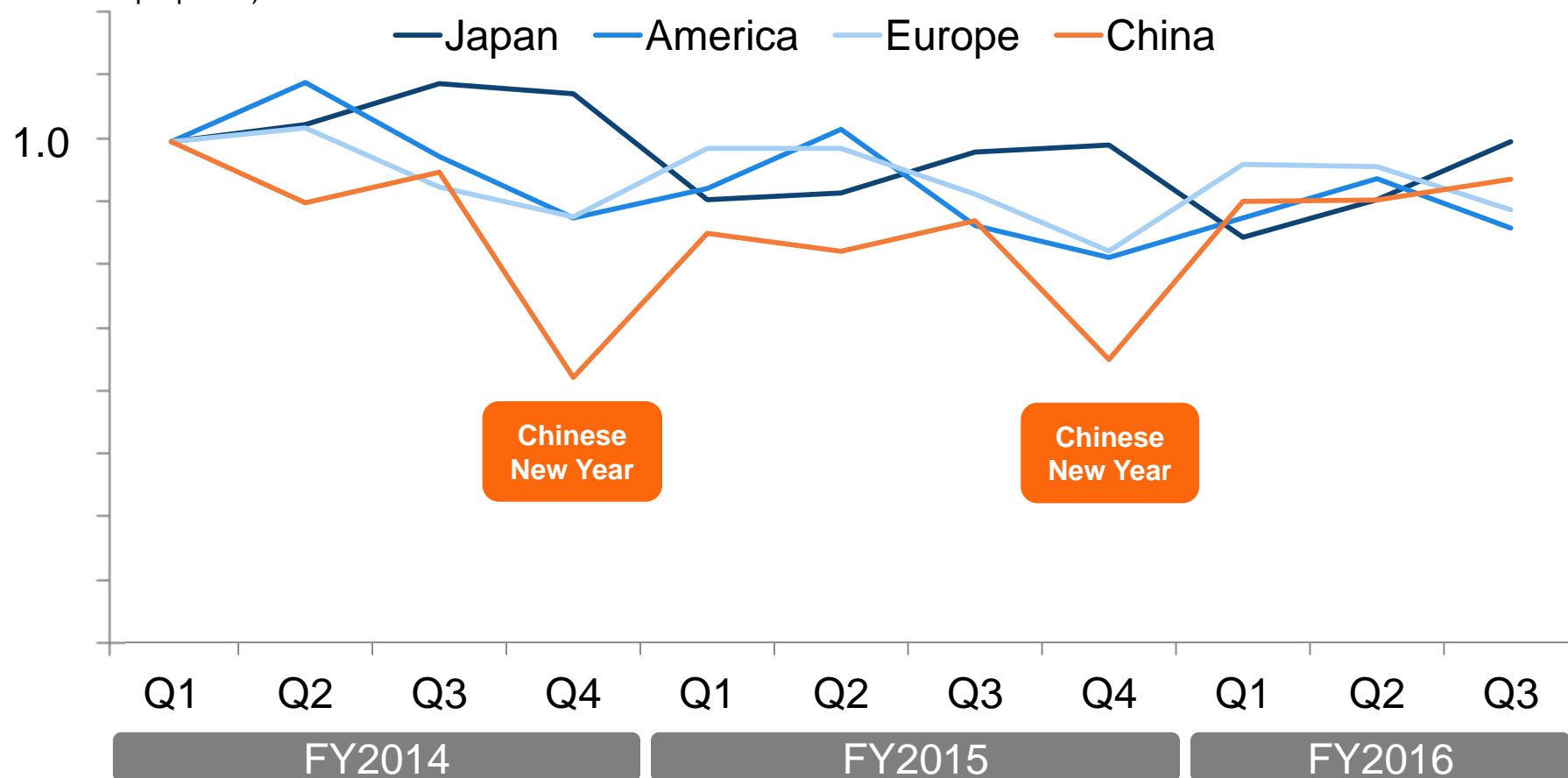
Forecast

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

Construction machinery operation hours

- Construction machinery operation hours for FY2016 are recovering compared with the 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

I . FY2016 Q3 Actual Results

- Clear recovery in the Chinese market -

FY2016 Q3 (Oct. – Dec.)

- Higher sales and profits driven by recovery of the construction machinery market and efforts for cost reduction.

		FY2015 Oct. – Dec.	FY2016 Oct. – Dec.	YoY change	
		Actual	Actual	Amount	%
(Million yen)					
Net sales		2,107	2,419	312	14.8%
Operating income		52	270	218	419.1%
Net income		3	198	194	5,304.7%
Exchange rate	USD	121.7	106.7	△ 15.0	△ 12.3%
	EUR	134.4	118.1	△ 16.3	△ 12.1%

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

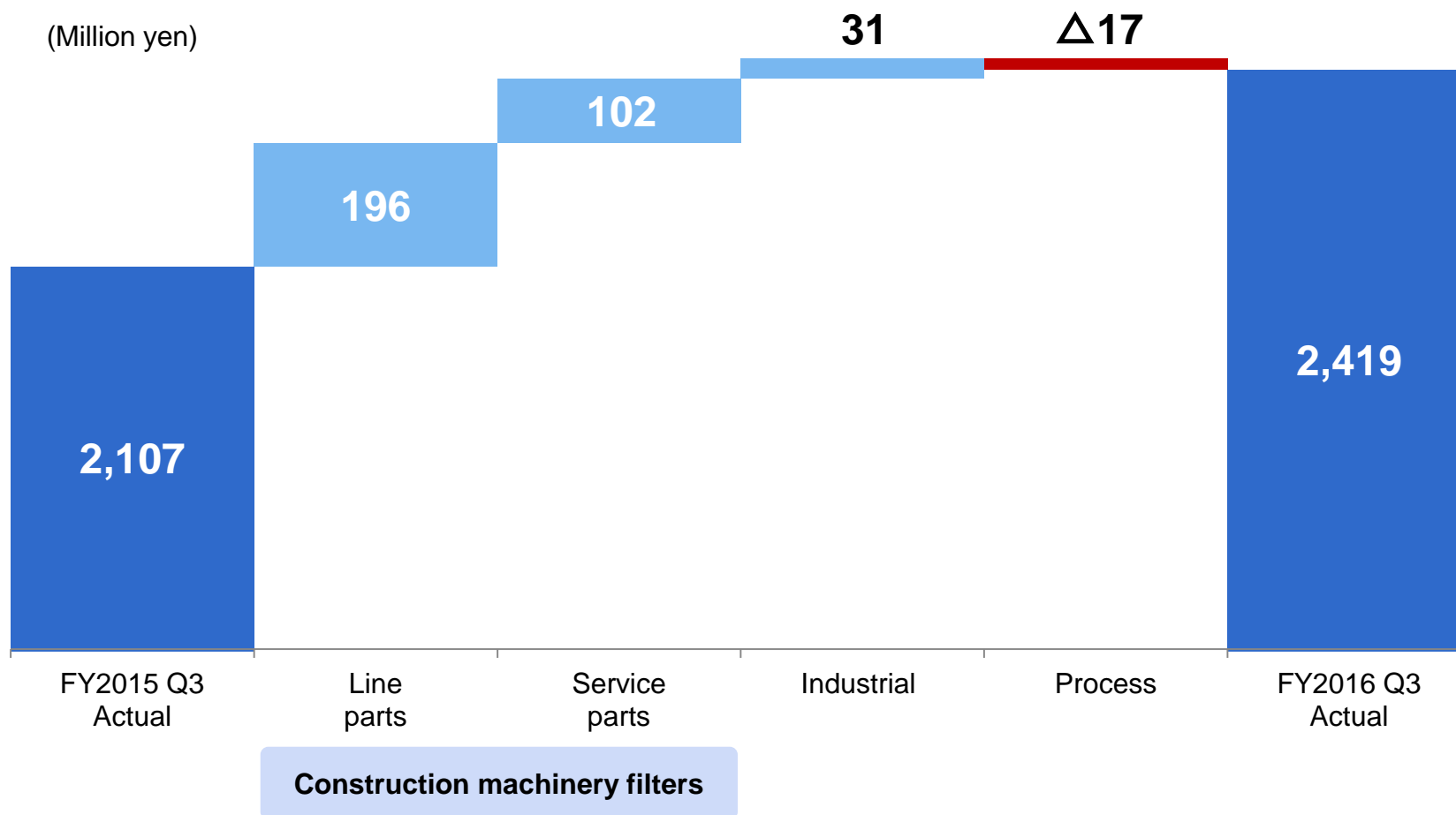
Sales by product (Q3: Oct. – Dec.)

- 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 a rebound, as inventory was reduced in the second half of the previous fiscal year.

	FY2015 Oct. – Dec.	FY2016 Oct. – Dec.	YoY change	
	Actual	Actual	Amount	%
(Million yen)				
Construction machinery filters	1,781	2,080	298	16.8%
Line parts	738	934	196	26.6%
Service parts	1,043	1,145	102	9.8%
Industrial filters	90	121	31	34.4%
Process filters	235	217	△ 17	△7.5%
Total of sales	2,107	2,419	312	14.8%

Factors for changes in sales (Q3: Oct. – Dec.)

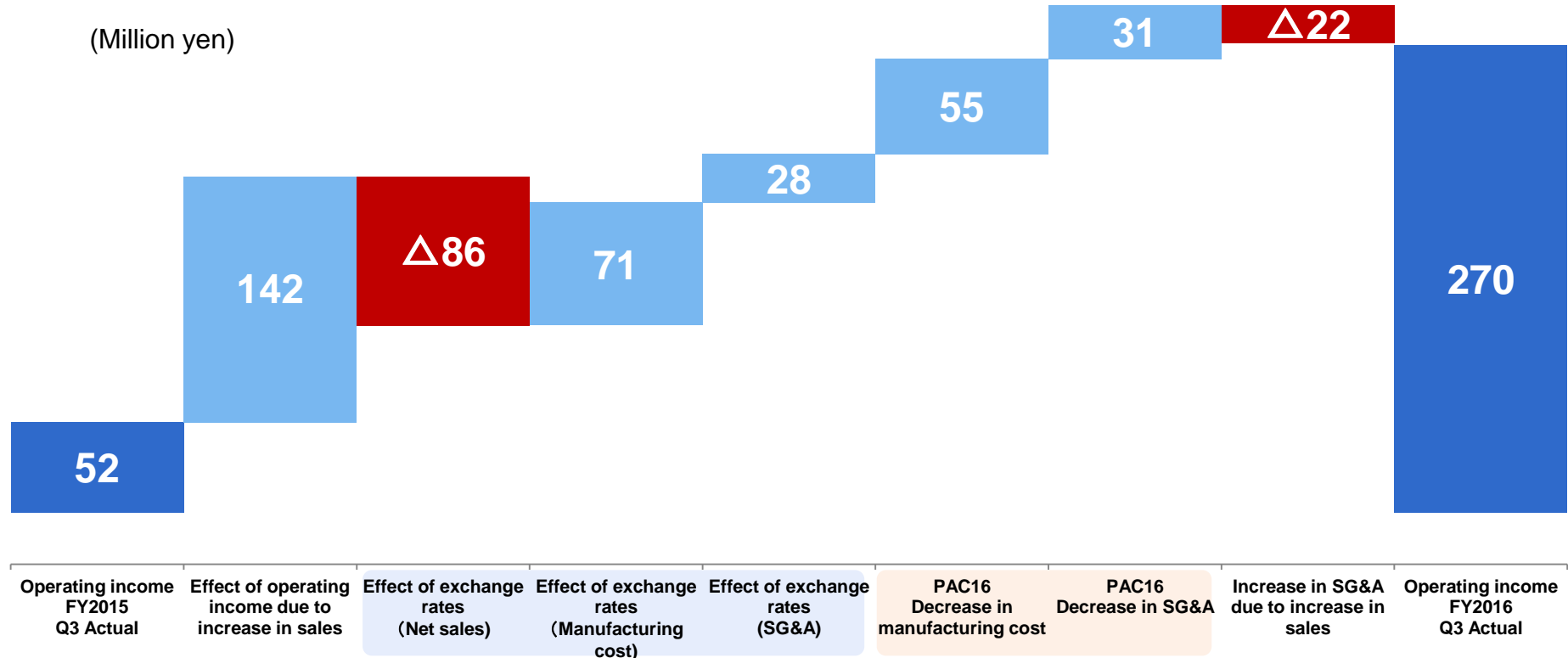
- There are signs of recovery of the Chinese market, and the demand for line parts has bottomed out.
- Orders for service parts are recovering as a rebound, as inventory was reduced in the second half of the previous fiscal year.



Factors for changes in operating income (Q3: Oct. – Dec.)

■ *PAC16 contributed to the creation of a robust profit structure.

(Million yen)



*PAC16: Promptly Activated Cost reduction 2016
The company-wide cost reduction project due to the sluggish demand

FY2016 Q3 Results (Apr. – Dec.)

- Profit margins improved thanks to the effect of PAC16. Sales are almost at the same level as the previous fiscal year.

	FY2015 Q3	FY2016 Q3	FY2016 Q3	YoY change	
	Actual	Forecast (Nov. 4, 2016)	Actual	Amount	%
(Million yen)					
Net sales	7,235	7,077	7,203	△ 32	△0.4%
Operating income	223	602	707	483	216.8%
Net income	75	378	471	396	527.1%

Sales by product (Apr. – Dec.)

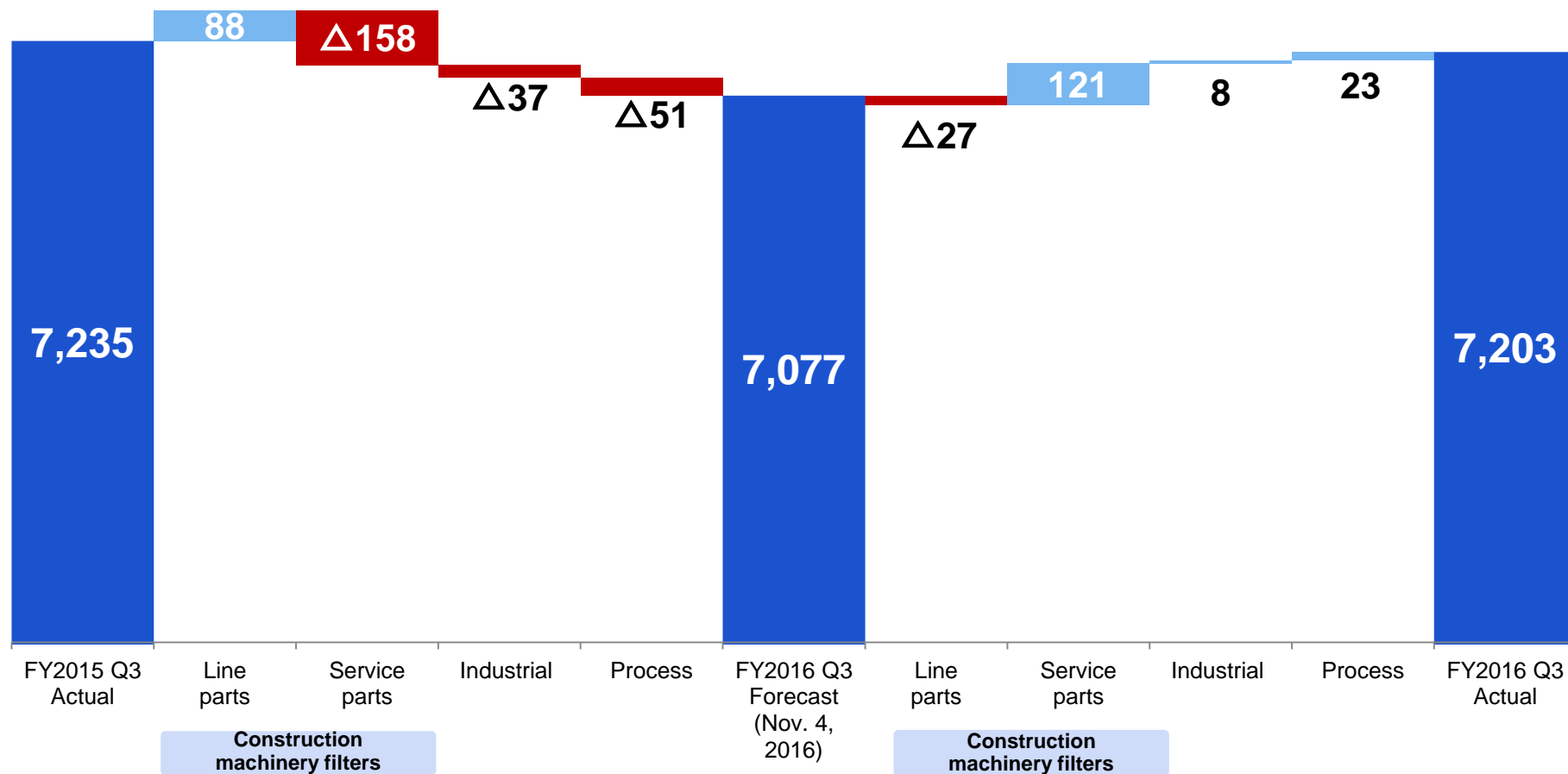
- Sales of line parts and service parts recovered approximately to the same level as the previous fiscal year.

	FY2015 Q3	FY2016 Q3	FY2016 Q3	YoY change	
	Actual	Forecast (Nov. 4, 2016)	Actual	Amount	%
(Million yen)					
Construction machinery filters	6,232	6,161	6,255	22	0.4%
Line parts	2,613	2,701	2,673	59	2.3%
Service parts	3,618	3,460	3,581	△ 36	△1.0%
Industrial filters	358	321	330	△ 28	△7.9%
Process filters	644	593	617	△ 26	△4.1%
Total of sales	7,235	7,077	7,203	△ 32	△0.4%

Factors for changes in sales (Apr. – Dec.)

- Sales of line parts and service parts recovered approximately to the same level as the previous fiscal year.

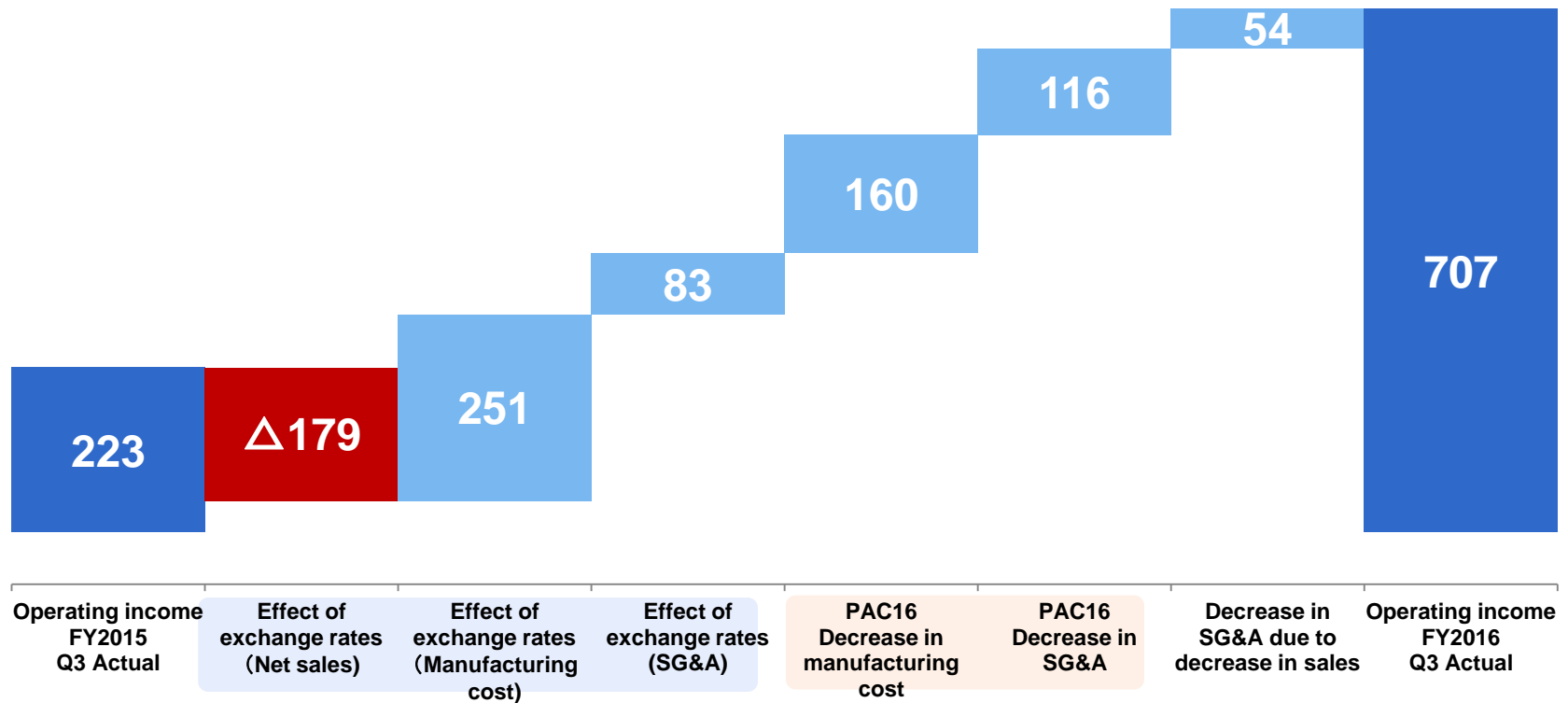
(Million yen)



Factors for changes in operating income (Apr. – Dec.)

- PAC16 contributed to the creation of a robust profit structure.

(Million yen)



Balance Sheet

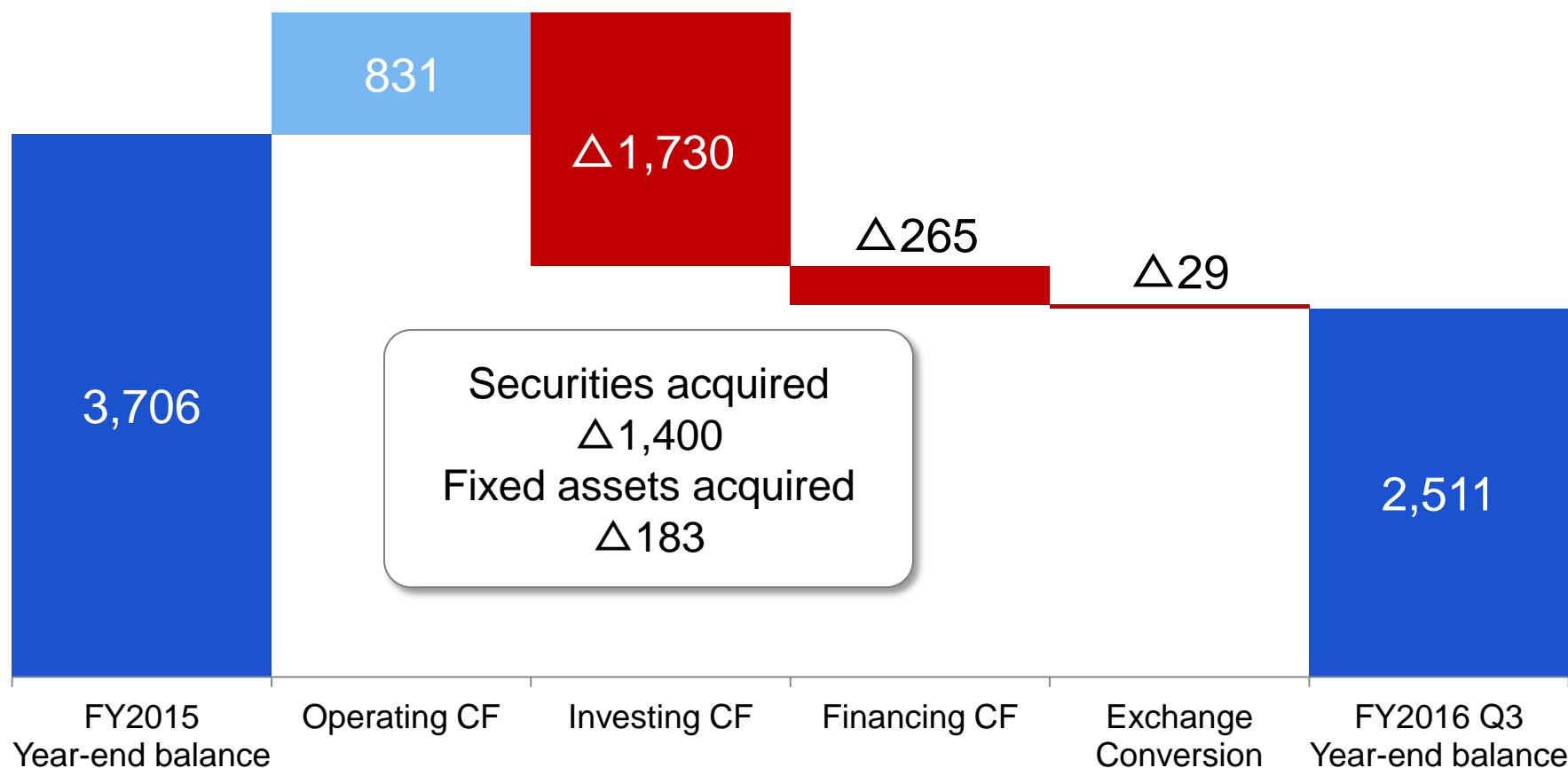
■ “Investments and other assets” increased due to acquisition of securities.

(Million yen)		End-FY2015	FY2016 Q3	Change in ratio		End-FY2015	FY2016 Q3	Change in ratio	
Current assets		7,604	6,657	△14.2%	Current liabilities		1,704	2,159	21.1%
	Cash and deposits	3,806	2,511	△51.6%		Notes and accounts payable-trade	796	1,064	25.2%
	Notes and accounts receivable-trade	1,880	2,243	16.2%		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	1,453	△0.8%		Others	407	595	31.5%
	Others	452	449	△0.7%	Fixed liabilities		1,617	1,380	△17.2%
Fixed assets		1,919	3,373	43.1%		Corporate bonds	800	700	△14.3%
	Tangible fixed assets	1,322	1,203	△9.9%		Long-term loans payable	450	300	△50.0%
	Intangible fixed assets	97	280	65.3%		Net defined benefits liability	164	179	8.3%
	Investments and other assets	499	1,888	73.6%		Others	203	201	△1.1%
Total assets		9,523	10,030	5.0%	Total net assets		6,201	6,489	4.4%
					Total of liabilities and net assets		9,523	10,030	5.0%
						*Shareholders' equity ratio	65.1%	64.7%	

Factors for changes in cash flows

- Balance of cash and deposits declined compared to the end of the previous fiscal year.

(Million yen)



II . FY2016 Business Forecasts

- Making upward revision to the forecasts thanks to the recovery of the construction machinery market -**

FY2016 Full-year business forecasts

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

		FY2015	FY2016	FY2016	FY2016	YoY change	
(Million yen)		Actual	Initial forecast (May 13, 2016)	Revised forecast (Nov. 4, 2016)	Revised forecast (Feb. 3, 2017)	Amount	%
Net sales		9,458	8,670	9,345	9,950	491	5.2%
Operating income		407	344	780	880	472	116.1%
Net income		183	181	464	560	376	204.4%
Exchange rate	USD	120.1	120.0	100.0	100.0	△20.1	△16.7%
	EUR	132.6	130.0	110.0	110.0	△22.6	△17.0%

FY2016 Full-year sales forecasts by product

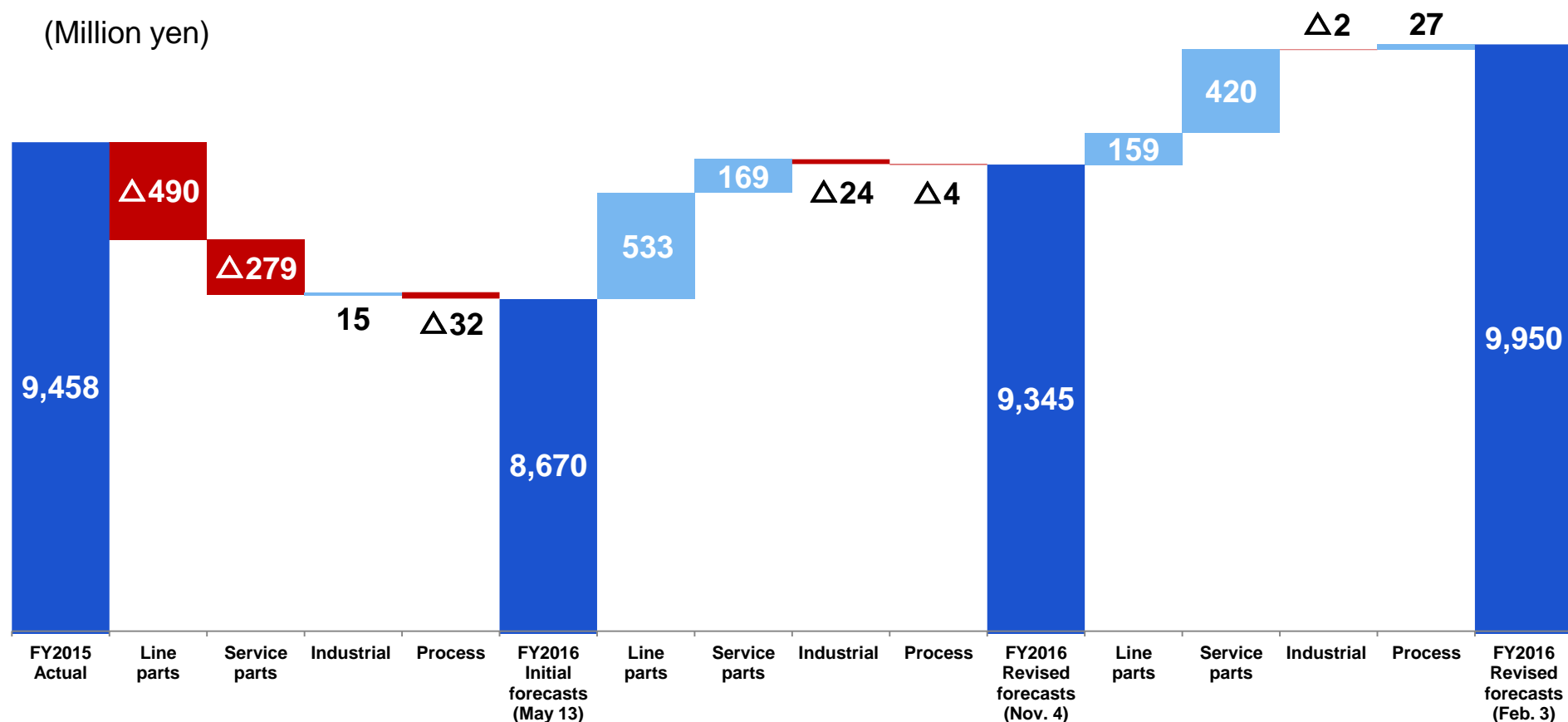
- Sales of line parts and service parts are expected to be higher than the previous fiscal year.

(Million yen)	FY2015	FY2016	FY2016	FY2016	YoY change	
	Actual	Initial forecast (May 13, 2016)	Revised forecast (Nov. 4, 2016)	Revised forecast (Feb. 3, 2017)	Amount	%
Construction machinery filters	8,174	7,403	8,105	8,685	511	6.3%
Line parts	3,553	3,062	3,595	3,755	201	5.7%
Service parts	4,620	4,340	4,509	4,930	309	6.7%
Industrial filters	468	483	459	457	△ 10	△2.3%
Process filters	815	783	779	807	△ 8	△1.0%
Total of sales	9,458	8,670	9,345	9,950	491	5.2%

Factors for changes in sales

- Sales of line parts and service parts are expected to be higher than the previous fiscal year.

(Million yen)



Reference materials

Sales by region (Apr. – Dec.)

- Sales decreased in all regions except China.

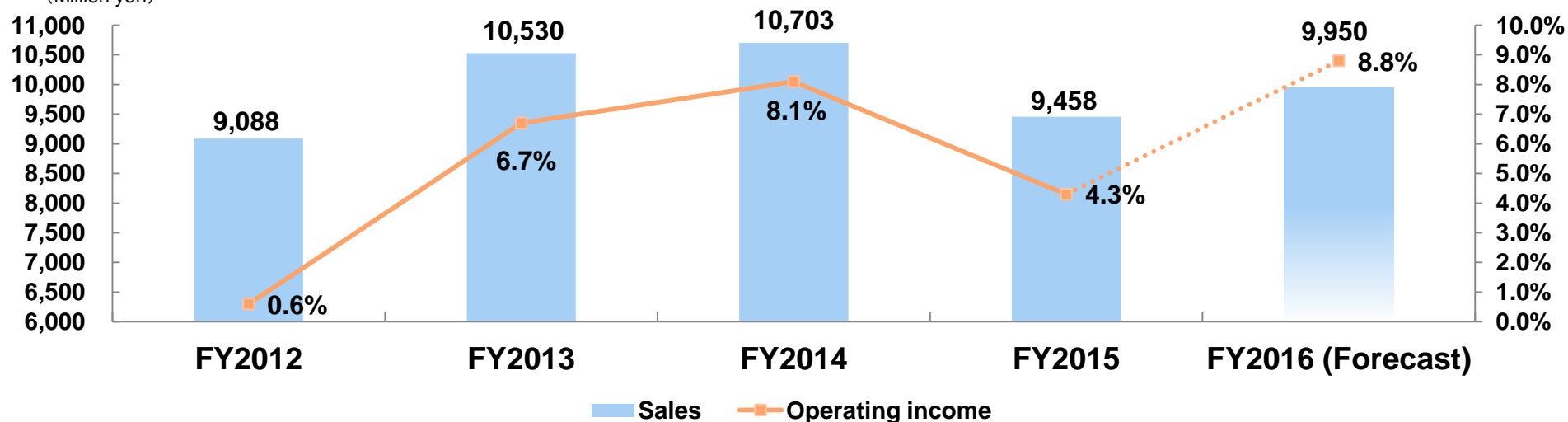
Note: Since sales are calculated based on the destinations of our invoices, our data may differ from actual regional market trends.

(Million yen)	FY2015 Q3 Actual		FY2016 Q3 Actual		YoY change	
	Amount	%	Amount	%	Amount	%
Japan	3,774	52.2%	3,786	52.6%	11	0.3%
North America	1,327	18.4%	1,249	17.3%	△ 78	△5.9%
China	356	4.9%	581	8.1%	225	63.4%
Asia	803	11.1%	812	11.3%	8	1.1%
Europe	869	12.0%	753	10.5%	△ 115	△13.3%
Other (Middle East etc.)	103	1.4%	20	0.3%	△ 83	△80.5%
Total of sales	7,235	100.0%	7,203	100.0%	△ 32	△0.4%

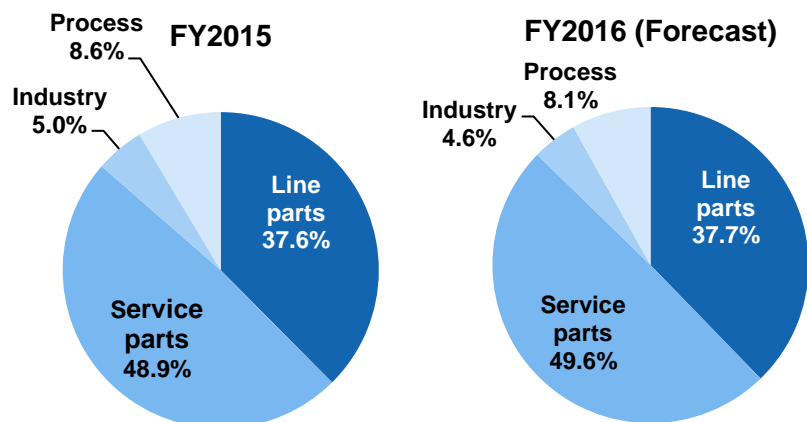
Financial highlights

Changes in sales and operating income margin

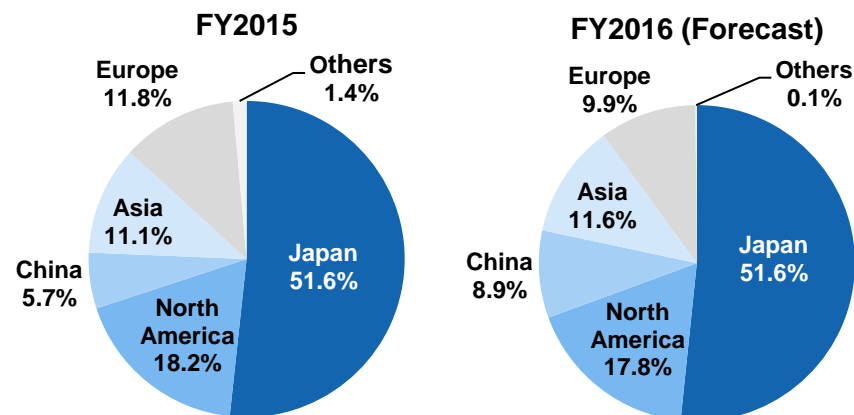
(Million yen)



Sales by product



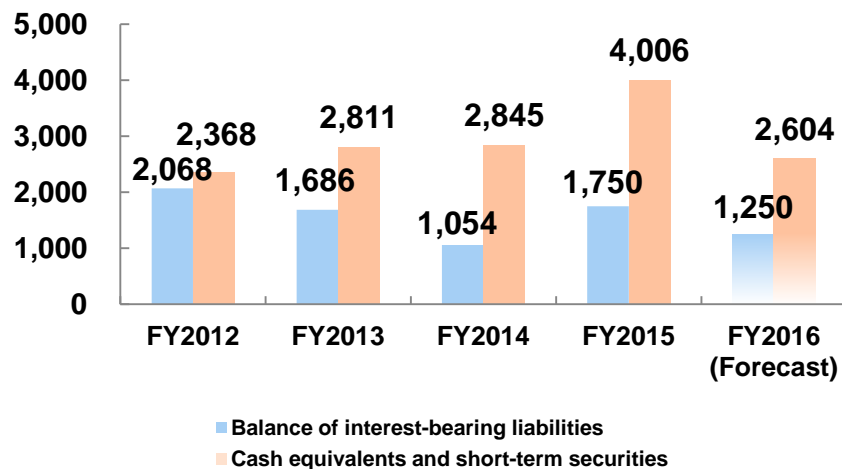
Sales by region



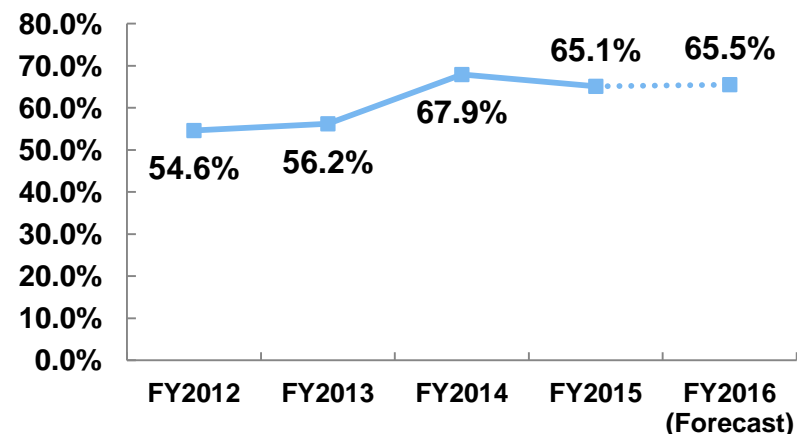
Financial highlights

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

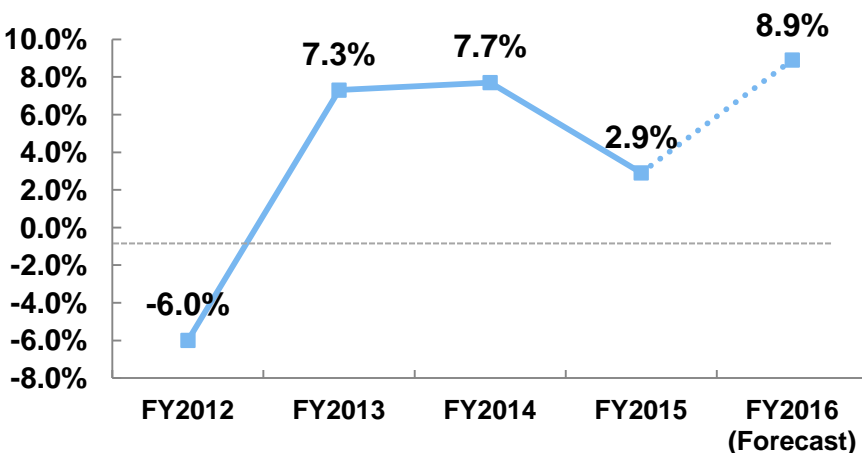
(Million yen)



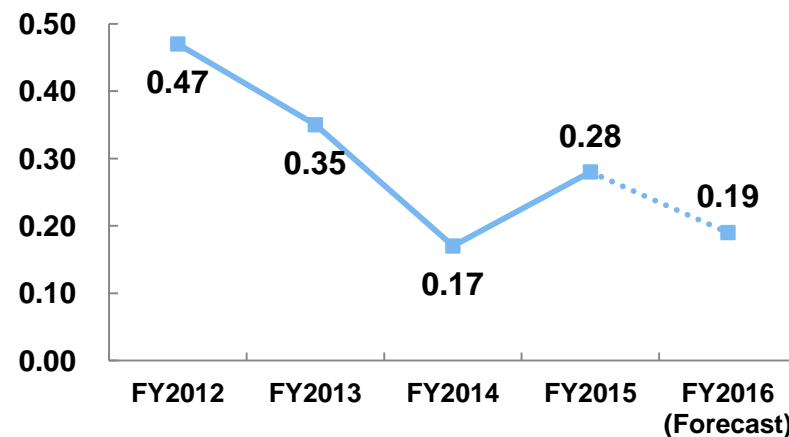
Ratio of shareholders' equity



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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