

FY2017 2nd Quarter Consolidated Financial and Operating Results<JGAAP>

(Overview – English translation of the Japanese original)

October 28, 2016

Company Name: SANYO DENKI CO., LTD.

Code Number: 6516 (Listed on the First Section of the Tokyo Stock Exchange)

(URL: <http://www.sanyodenki.co.jp/>)

Representative: Shigeo Yamamoto, President & CEO

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Scheduled date for submitting the Quarterly Securities Report: November 10, 2016

Scheduled date for commencement of dividend payments: December 9, 2016

Availability of supplementary briefing material on quarterly results: Yes

Schedule of quarterly results briefing session: Yes (For analysts)

(Amounts below one million yen are truncated.)

1. Overview of the Consolidated Financial and Operating Results for FY2017 Quarter 2 (from April 1, 2016 to September 30, 2016)

(1) Consolidated operating results (cumulative)

(% indicates changes from the previous term)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	¥ Million	%	¥ Million	%	¥ Million	%	¥ Million	%
FY2017 Quarter 2	35,818	(11.4)	2,329	(23.4)	1,960	(37.6)	1,395	(28.8)
FY2016 Quarter 2	40,410	(10.3)	3,041	(14.9)	3,141	(20.5)	1,959	(31.2)

Note: Comprehensive income: FY2017 Quarter 2: ¥865 million (-40.2%) FY2016 Quarter 2: ¥1,448 million (-59.8%)

	Net income per share	Diluted net income per share
	Yen	Yen
FY2017 Quarter 2	22.76	-
FY2016 Quarter 2	31.55	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	¥ Million	¥ Million	%	Yen
FY2017 Quarter 2	81,682	51,892	63.5	848.59
FY2016 Full year	84,945	52,099	61.3	838.80

(Reference) Equity: FY2017 Quarter 2: ¥51,886 million FY2016: ¥52,092 million

2. Dividends

	Annual cash dividend per share				
	1Q	2Q	3Q	4Q	Annual
	Yen	Yen	Yen	Yen	Yen
FY2016	-	9.00	-	9.00	18.00
FY2017	-	9.00			
FY2017 (Forecast)			-	9.00	18.00

Note: Revision to the dividend forecast: None

3. Forecast for FY2017 (from April 1, 2016 to March 31, 2017)

(% indicates changes from the previous corresponding term)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	¥ Million	%	¥ Million	%	¥ Million	%	¥ Million	%	Yen
Full year	82,300	2.5	6,700	25.4	6,700	24.4	4,600	24.8	75.23

Note: Revision to the business results forecast: None

The Company repurchased 957,000 shares of treasury stock pursuant to the resolution adopted at the Board of Directors' Meeting, held on May 25, 2016. Accordingly, "Net income per share" in the forecast for FY2017 has been adjusted in consideration of the said repurchase of treasury stock.

4. Others

(1) Significant changes in subsidiaries during FY2017 Quarter 2: None
 (Change of certain subsidiaries that involves the scope of consolidation)

(2) Adoption of special accounting treatment for preparing quarterly consolidated financial statements:
 None

(3) Changes in accounting policies, changes in accounting estimates, and restatements of prior period financial statements after error corrections

1) Changes in accounting policies due to revisions to accounting standards: None

2) Changes in accounting policies due to other than 1): None

3) Changes in accounting estimates: None

4) Restatement of prior period financial statements after error corrections: None

(4) Number of issued shares (common shares)

1) Number of issued shares at the end of the period (including treasury stock)	FY2017 Quarter 2	64,860,935 shares	FY2016	64,860,935 shares
2) Number of treasury stock at the end of the period	FY2017 Quarter 2	3,715,869 shares	FY2016	2,757,424 shares
3) Average number of shares during the period	FY2017 Quarter 2	61,305,583 shares	FY2016 Quarter 2	62,108,874 shares

*Status of execution of the quarterly review procedures of financial results

The quarterly review procedures for the quarterly consolidated financial statements are currently in progress at the time of the disclosure of these quarterly financial results.

*Explanation for the appropriate use of performance forecasts and other special notes

Statements in these reports regarding the next fiscal year and other future events are evaluations made based upon the information available at the time these reports were prepared and believed to be reasonable. Accordingly, actual results may vary significantly from the forecast results stated here for a number of factors.

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1. Qualitative Information on Financial Results for FY2017 Quarter 2

(1) Explanation of Operating Results

During the six months ended September 30, 2016, the Japanese economy remained stagnant from sluggish exports and a slowdown in capital expenditure mainly due to the progress in the appreciation of the yen and the economic slowdown in emerging nations.

Under such circumstances, there were declines in demand for machine tools in the equipment industries, which are the Group's main clients, as well as demand for power conditioners for photovoltaic generation.

As a result, consolidated net sales totaled ¥35,818 million in the six months ended September 30, 2016, down 11.4% from the same period last year. Consolidated operating income decreased by 23.4% to ¥2,329 million and consolidated ordinary income declined by 37.6% to ¥1,960 million, while profit attributable to owners of parent amounted to ¥1,395 million, down 28.8%.

Order intake decreased by 9.4% to ¥36,452 million, while a backlog of orders decreased by 0.1% to ¥12,538 million.

Segment operating results by geographical area are as follows:

1) Japan

Companies operating in Japan are the Company and its consolidated subsidiaries: SANYO KOGYO CO., LTD. and SANYO DENKI Techno Service CO., LTD. Segment sales amounted to ¥36,109 million, down 9.8% from the same period last year. Segment profit decreased by 32.8% to ¥1,461 million.

2) North America

The Company has a consolidated subsidiary in North America: SANYO DENKI AMERICA, INC. Segment sales increased by 12.5% to ¥5,024 million. Segment profit increased by 140.0% to ¥422 million.

3) Europe

The Company's consolidated subsidiaries operating in Europe are SANYO DENKI EUROPE S.A. and SANYO DENKI GERMANY GmbH. Segment sales amounted to ¥2,220 million, down 8.8% from the same period last year. Segment profit decreased by 5.1% to ¥171 million.

4) East Asia

The Company's consolidated subsidiaries operating in East Asia include SANYO DENKI SHANGHAI CO., LTD., SANYO DENKI (H.K.) CO., LIMITED, SANYO DENKI TAIWAN CO., LTD., SANYO DENKI KOREA CO., LTD., SANYO DENKI ENGINEERING (Shanghai) CO., LTD., which is a subsidiary of SANYO DENKI SHANGHAI CO., LTD., as well as SANYO DENKI (Shenzhen) CO., LTD., SANYO DENKI (Zhongshan) CO., LTD. and SANYO DENKI ENGINEERING (Shenzhen) CO., LTD, all of which are subsidiaries of SANYO DENKI (H.K.) CO., LIMITED. Segment sales amounted to ¥5,770 million, down 16.7% from the same period last year, resulting in a segment loss of ¥54 million (segment profit of ¥182 million in the same period last year).

5) Southeast Asia

The Company's consolidated subsidiaries operating in Southeast Asia include SANYO DENKI PHILIPPINES, INC., SANYO DENKI SINGAPORE PTE. LTD., and SANYO DENKI INDIA PRIVATE LIMITED as well as SANYO DENKI (THAILAND) CO., LTD. which is a subsidiary of SANYO DENKI SINGAPORE PTE. LTD. Segment sales decreased by 5.0% to ¥8,041 million. Segment profit decreased by 34.9% to ¥145 million.

The general state of business by division is as follows:

1) Cooling Systems Division

As for “San Ace,” which is Sanyo Denki’s brand name for cooling system products, demand was higher in information telecommunications and servers for data centers, as well as for the factory automation industry. Conversely, demand for power conditioners for photovoltaic generation decreased.

As a result, net sales increased by 1.4% year on year to ¥10,961 million. The amount of orders received dropped by 0.3% to ¥10,709 million, and the order backlog increased by 2.9% to ¥2,945 million.

2) Power Systems Division

Among our products under the brand name of “SANUPS” for power supply equipment, demand for power conditioners declined due to the sluggish market resulting from the feed-in tariff scheme for electricity generated by photovoltaic power. Conversely, demand for certain uninterruptible power systems for industrial facilities and equipment such as designated energy management factories was vigorous.

As a result, net sales decreased by 16.1% year on year to ¥3,875 million, the amount of orders received dropped by 24.5% to ¥4,615 million, and the order backlog decreased by 20.7% to ¥2,999 million.

3) Servo Systems Division

As for “SANMOTION,” which is the brand name for servo systems, demand from manufacturers of machine tools was stagnant due to sluggishness in the smartphone and other markets. Conversely, demand for semiconductor manufacturing equipment and robots remained strong.

As a result, net sales decreased by 14.9% year on year to ¥16,995 million, the amount of orders received dropped by 2.8% to ¥17,529 million, and the order backlog increased by 26.4% to ¥5,429 million.

4) Electrical Equipment Sales Division

With regard to sales of industrial electrical equipment, control equipment and electronic materials, demand from the medical devices sector was on track to recovery and demand from general industries remained strong, although demand for photovoltaic generation control panels for overseas decreased significantly.

In iron and steel-related business sectors, demand for renewal works of aged production facilities and equipment remained robust.

As a result, net sales decreased by 31.1% year on year to ¥2,729 million, the amount of orders received dropped by 39.3% to ¥2,512 million, and the order backlog decreased by 31.1% to ¥577 million.

5) Electrical Works Contracting Division

With respect to factory equipment in steel mills, renewal work and repair work were carried out as planned. With regard to demand for the construction of photovoltaic generation equipment, both orders and sales decreased due to declined purchase price for photovoltaic power.

As a result, net sales increased by 18.8% year on year to ¥1,257 million, the amount of orders received decreased by 10.2% to ¥1,084 million, and the order backlog dropped by 23.7% to ¥585 million.

(2) Explanation of Financial Position

As for the financial position during the six months ended September 30, 2016, total assets went down by ¥3,263 million from the end of the previous fiscal year, liabilities decreased by ¥3,056 million, and net assets decreased by ¥206 million.

Major factors of fluctuation in total assets were a decrease of ¥2,876 million in notes and accounts receivable-trade, an increase of ¥1,143 million in electronically recorded monetary claims - operating, and an increase of ¥1,067 million in investments in securities.

Major factors of fluctuation in liabilities were a decrease of ¥3,223 million in notes and accounts payable-trade, an increase of ¥1,085 million in electronically recorded obligations - operating, and a decrease of ¥337 million in short-term debt.

Major factors of fluctuation in net assets included a decrease of ¥1,488 million in foreign currency translation adjustments, an increase of ¥836 million in retained earnings and an increase of ¥825 million in unrealized holding gain on securities.

(Condition of cash flows)

Cash and cash equivalents (hereinafter referred to as "cash") at the end of the second quarter under review decreased by ¥6 million from the end of the previous fiscal year to ¥12,737 million. The conditions of each cash flow and factors thereof are as follows:

(Cash flows from operating activities)

Net cash provided by operating activities during the six months ended September 30, 2016 amounted to ¥3,256 million (provided ¥1,858 million in the same period last year). This is mainly attributable to income before income taxes of ¥1,868 million, decrease in notes and accounts payable-trade of ¥1,405 million, and decrease in notes and accounts receivable-trade of ¥1,129 million.

(Cash flows from investing activities)

Net cash used in investing activities during the six months ended September 30, 2016 amounted to ¥894 million (used ¥761 million in the same period last year). This is mainly attributable to purchase of tangible fixed assets of ¥606 million such as production equipment and others.

(Cash flows from financing activities)

Net cash used in financing activities during the six months ended September 30, 2016 amounted to ¥1,617 million (used ¥1,330 million in the same period last year). This was mainly attributable to dividends paid of ¥554 million, acquisition of treasury stock of ¥512 million and repayments of long-term debt of ¥432 million.

(3) Explanation of Forward-looking Information such as Forecast of Consolidated Business Results

Forecast of business results for the fiscal year ending March 31, 2017 has not changed from the full year forecast of business results announced on April 27, 2016.

2. Matters Related to Summary Information (Notes)

(1) Significant Changes in Subsidiaries during the FY2017 Quarter 2

Not applicable.

(2) Adoption of Special Accounting Treatment for Preparing Quarterly Consolidated Financial Statements

Not applicable.

(3) Additional Information

(Application of Implementation Guidance on Recoverability of Deferred Tax Assets)

The "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016) has been applied from the first quarter of the fiscal year under review.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2016	As of September 30, 2016
Assets		
Current assets		
Cash and bank deposits	13,213	13,349
Notes and accounts receivable-trade	20,393	17,517
Electronically recorded monetary claims - operating	3,412	4,555
Merchandise and finished goods	5,757	5,109
Work in process	3,245	3,122
Raw materials and supplies	7,042	6,765
Costs on uncompleted construction contracts	249	146
Other receivables	360	377
Deferred tax assets	762	694
Others	925	557
Allowance for doubtful accounts	(24)	(22)
Total current assets	55,339	52,174
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	9,483	9,092
Machinery, equipment and vehicles, net	2,833	2,628
Land	6,450	6,450
Construction in progress	516	274
Others, net	1,104	1,025
Total tangible fixed assets	20,388	19,471
Intangible fixed assets	489	493
Investments and other assets		
Investments in securities	5,382	6,449
Deferred tax assets	651	424
Others	2,712	2,687
Allowance for doubtful accounts	(17)	(19)
Total investments and other assets	8,728	9,542
Total fixed assets	29,606	29,507
Total assets	84,945	81,682

(Million yen)

	As of March 31, 2016	As of September 30, 2016
Liabilities		
Current liabilities		
Notes and accounts payable-trade	12,701	9,478
Electronically recorded obligations - operating	1,922	3,008
Short-term debt	6,816	6,479
Accrued income taxes	220	465
Deferred tax liabilities	3	2
Reserve for bonuses to directors and corporate auditors	89	36
Others	4,085	3,644
Total current liabilities	25,839	23,114
Long-term liabilities		
Long-term debt	514	307
Lease obligations	304	232
Deferred tax liabilities	0	8
Deferred tax liabilities-revaluation	840	840
Net defined benefit liability	5,347	5,285
Total non-current liabilities	7,007	6,675
Total liabilities	32,846	29,790
Net assets		
Shareholders' equity		
Common stock	9,926	9,926
Capital surplus	11,460	11,460
Retained earnings	29,998	30,834
Treasury stock	(919)	(1,432)
Total shareholders' equity	50,466	50,789
Accumulated other comprehensive income		
Unrealized holding gain on securities	1,220	2,045
Revaluation reserve for land, net of tax	936	936
Foreign currency translation adjustments	1,365	(123)
Remeasurements of defined benefit plans	(1,895)	(1,761)
Total accumulated other comprehensive income	1,626	1,097
Non-controlling interests	6	5
Total net assets	52,099	51,892
Total liabilities and net assets	84,945	81,682

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
 Quarterly Consolidated Statements of Income
 FY2016 Quarter 2 and FY2017 Quarter 2

	(Million yen)	
	FY2016 Quarter 2 (from April 1, 2015 to September 30, 2015)	FY2017 Quarter 2 (from April 1, 2016 to September 30, 2016)
Net sales	40,410	35,818
Cost of sales	30,762	27,415
Gross profit	9,648	8,403
Selling, general and administrative expenses	6,606	6,074
Operating income	3,041	2,329
Other income		
Interest income	20	12
Dividend income	73	78
Rent income	41	41
Others	55	61
Total other income	189	194
Other expenses		
Interest expense	30	17
Foreign exchange loss	48	537
Others	11	8
Total other expenses	90	563
Ordinary income	3,141	1,960
Extraordinary loss		
Loss on valuation of investment securities	-	91
Total extraordinary loss	-	91
Income before income taxes	3,141	1,868
Income taxes-current	747	588
Income taxes-deferred	434	(115)
Total income taxes	1,181	473
Profit	1,959	1,395
Profit attributable to non-controlling interests	0	0
Profit attributable to owners of parent	1,959	1,395

Quarterly Consolidated Statements of Comprehensive Income
FY2016 Quarter 2 and FY2017 Quarter 2

(Million yen)

	FY2016 Quarter 2 (from April 1, 2015 to September 30, 2015)	FY2017 Quarter 2 (from April 1, 2016 to September 30, 2016)
Profit	1,959	1,395
Other comprehensive income		
Unrealized holding gain on securities	(525)	825
Foreign currency translation adjustments	(86)	(1,489)
Remeasurements of defined benefit plans	100	134
Total other comprehensive income	(511)	(529)
Comprehensive income	1,448	865
Comprehensive income attributable to:		
Owners of parent	1,447	865
Non-controlling interests	0	(0)

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	FY2016 Quarter 2 (from April 1, 2015 to September 30, 2015)	FY2017 Quarter 2 (from April 1, 2016 to September 30, 2016)
Cash flows from operating activities		
Income before income taxes	3,141	1,868
Depreciation and amortization	943	1,066
Decrease (increase) in notes and accounts receivable-trade	3,609	1,129
Decrease (increase) in inventories	(655)	569
Increase (decrease) in notes and accounts payable-trade	(2,145)	(1,405)
Others	(990)	24
Subtotal	3,902	3,251
Income taxes paid	(2,100)	(67)
Others	56	72
Net cash provided by (used in) operating activities	1,858	3,256
Cash flows from investing activities		
Purchase of tangible fixed assets	(935)	(606)
Others	174	(287)
Net cash provided by (used in) investing activities	(761)	(894)
Cash flows from financing activities		
Increase (decrease) in short-term debt	(23)	(32)
Proceeds from long-term debt	21	-
Repayments of long-term debt	(591)	(432)
Dividends paid	(558)	(554)
Acquisition of treasury stock	(5)	(512)
Others	(173)	(85)
Net cash provided by (used in) financing activities	(1,330)	(1,617)
Effect of exchange rate change on cash and cash equivalents	(66)	(751)
Net increase (decrease) in cash and cash equivalents	(300)	(6)
Cash and cash equivalents at beginning of year	13,151	12,743
Cash and cash equivalents at end of quarter	12,851	12,737

(4) Notes on Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

(Notes in Event of Significant Change in Shareholders' Equity)

Not applicable.

(Segment Information, etc.)

I FY2016 Quarter 2 (from April 1, 2015 to September 30, 2015)

1. Information on net sales and profit (loss) by reporting segment

(Million yen)

	Reporting segment					
	Japan	North America	Europe	East Asia	Southeast Asia	Total
Sales						
Sales to customers	28,255	4,421	2,422	4,721	590	40,410
Intersegment sales or transfers	11,762	44	12	2,209	7,872	21,901
Total	40,018	4,465	2,434	6,930	8,463	62,312
Segment profit	2,175	176	181	182	223	2,939

2. Differences between amounts of profit (loss) recognized in reporting segments and the corresponding amounts reported in the quarterly consolidated statements of income, and the primary items contributing to the difference

(Million yen)

Profit	Amount
Total of reporting segments	2,939
Elimination of intersegment transactions	102
Operating income in quarterly consolidated statements of income	3,041

3. Matters related to changes of reporting segments, etc.

(Change in depreciation method of tangible fixed assets)

The Company and its domestic consolidated subsidiaries previously used the declining-balance method for certain tangible fixed assets. However, from the first quarter of the previous fiscal year, the straight-line method has been applied.

As a result of this change, segment profit in "Japan" for the six months ended September 30, 2015 increased by ¥102 million, compared with the amount under the formerly applied method.

II FY2017 Quarter 2 (from April 1, 2016 to September 30, 2016)

1. Information on net sales and profit (loss) by reporting segment

(Million yen)

	Reporting segment					
	Japan	North America	Europe	East Asia	Southeast Asia	Total
Sales						
Sales to customers	24,062	4,999	2,215	3,947	593	35,818
Intersegment sales or transfers	12,047	24	4	1,822	7,447	21,347
Total	36,109	5,024	2,220	5,770	8,041	57,166
Segment profit (loss)	1,461	422	171	(54)	145	2,147

2. Differences between amounts of profit (loss) recognized in reporting segments and the corresponding amounts reported in the quarterly consolidated statements of income, and the primary items contributing to the difference

(Million yen)

Profit	Amount
Total of reporting segments	2,147
Elimination of intersegment transactions	181
Operating income in quarterly consolidated statements of income	2,329