

FY2017 3rd Quarter Consolidated Financial and Operating Results <JGAAP>

(Overview – English translation of the Japanese original)

January 30, 2017

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/>)

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Scheduled date for submitting the Quarterly Securities Report: February 10, 2017

Scheduled date for commencement of dividend payments: -

Availability of supplementary briefing material on quarterly results: None

Schedule of quarterly results briefing session: None

(Amounts below one million yen are truncated.)

1. Overview of the Consolidated Financial and Operating Results for FY2017 Quarter 3 (from April 1, 2016 to December 31, 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 3	54,093	(10.0)	3,127	(22.8)	3,423	(19.1)	2,503	(8.7)
FY2016 Quarter 3	60,108	(10.6)	4,053	(21.5)	4,232	(30.2)	2,741	(36.0)

Note: Comprehensive income: FY2017 Quarter 3: ¥4,114 million (58.7%) FY2016 Quarter 3: ¥2,592 million (-59.7%)

	Net income per share	Diluted net income per share
	Yen	Yen
FY2017 Quarter 3	40.87	-
FY2016 Quarter 3	44.14	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	¥ Million	¥ Million	%	Yen
FY2017 Quarter 3	87,287	54,589	62.5	892.71
FY2016 Full year	84,945	52,099	61.3	838.80

(Reference) Equity: FY2017 Quarter 3: ¥54,582 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 3: 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 3	64,860,935 shares	FY2016	64,860,935 shares
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2) Number of treasury stock at the end of the period

FY2017 Quarter 3	3,718,527 shares	FY2016	2,757,424 shares
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3) Average number of shares during the period

FY2017 Quarter 3	61,251,527 shares	FY2016 Quarter 3	62,108,010 shares
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*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 3

(1) Explanation of Operating Results

During the nine months ended December 31, 2016, the Japanese economy showed some signs of recovery in the markets. However, there was also a delay in its economic improvement due to the growth slowdown in emerging nations and accompanying stagnant capital investment.

Under such circumstances, demand was solid for machine tools, robots, and semiconductor manufacturing equipment in the equipment industries, which are the Group's main target markets. On the other hand, demand for power conditioners for photovoltaic generation decreased.

As a result, consolidated net sales totaled ¥54,093 million in the nine months ended December 31, 2016, down 10.0% from the same period last year. Consolidated operating income decreased by 22.8% to ¥3,127 million and consolidated ordinary income declined by 19.1% to ¥3,423 million, while profit attributable to owners of parent amounted to ¥2,503 million, down 8.7%.

Orders received decreased by 7.0% to ¥56,011 million, while order backlog increased by 7.9% to ¥13,823 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 decreased by 8.2% to ¥54,679 million. Segment profit decreased by 25.4% to ¥2,139 million.

2) North America

The Company has a consolidated subsidiary in North America: SANYO DENKI AMERICA, INC. Segment sales increased by 11.5% to ¥7,114 million. Segment profit increased by 102.1% to ¥379 million.

3) Europe

The Company's consolidated subsidiaries operating in Europe are SANYO DENKI EUROPE S.A. and SANYO DENKI GERMANY GmbH. Segment sales decreased by 6.0% to ¥3,280 million. Segment profit decreased by 9.1% to ¥216 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., SANYO DENKI (Shenzhen) CO., LTD., SANYO DENKI (Zhongshan) CO., LTD., SANYO DENKI Techno Service (Shenzhen) CO., LTD. Segment sales amounted to ¥8,640 million, down 8.2%, resulting in a segment loss of ¥140 million (segment profit of ¥90 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 2.2% to ¥12,104 million. Segment profit decreased by 34.1% to ¥283 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 from the factory automation industry increased mainly for smartphone-related capital investment. In addition, demand from information telecommunications and servers for data centers was also solid. Conversely, demand for power conditioners for photovoltaic generation decreased.

As a result, net sales increased by 1.3% year on year to ¥16,309 million. The amount of orders received increased by 0.4% to ¥16,169 million, and the order backlog increased by 4.2% to ¥3,057 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 continuously sluggish market condition of the feed-in tariff scheme for electricity generated by photovoltaic power. Conversely, demand for uninterruptible power systems for production facilities and voltage dip compensators for the factory automation industry was solid.

As a result, net sales decreased by 18.6% year on year to ¥6,250 million, the amount of orders received dropped by 22.4% to ¥7,032 million, and the order backlog decreased by 17.1% to ¥3,043 million.

3) Servo Systems Division

As for “SANMOTION,” which is the brand name for servo systems, demand from manufacturers of semiconductor manufacturing equipment and robots was solid while capital investment related to semiconductors continued to be brisk. In addition, capital investment for smartphones in China showed a sign of recovery, resulting in an increase of orders received for machine tools, general industrial machines, and chip mounters.

As a result, net sales decreased by 6.7% year on year to ¥26,035 million. The amount of orders received increased by 6.2% to ¥27,544 million, and the order backlog increased by 50.4% to ¥6,404 million.

4) Electrical Equipment Sales Division

With regard to sales of industrial electrical equipment, control equipment, and electronic materials, demand for general machinery and medical devices was solid, and demand for the semiconductor-related products showed a sign of recovery. However, demand for the power-related and railway-related products continued to be stagnant, with significantly decreased demand for the photovoltaic generation-related products.

In iron and steel-related business sectors, demand for renewal works of aged important production facilities and spare parts for repairs was vigor.

As a result, net sales decreased by 44.9% year on year to ¥3,709 million, the amount of orders received dropped by 49.8% to ¥3,568 million, and the order backlog decreased by 37.4% to ¥652 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 prices for photovoltaic power.

As a result, net sales increased by 6.4% year on year to ¥1,788 million, the amount of orders received decreased by 14.0% to ¥1,695 million, and the order backlog decreased by 26.6% to ¥665 million.

(2) Explanation of Financial Position

As for the financial position during the nine months ended December 31, 2016, total assets increased by ¥2,341 million from the end of the previous fiscal year, liabilities decreased by ¥148 million, and net assets increased by ¥2,489 million.

Major factors of changes in total assets were an increase of ¥2,225 million in electronically recorded monetary claims - operating, an increase of ¥1,760 million in investments in securities, and a decrease of ¥1,116 million in notes and accounts receivable - trade.

Major factors of changes in liabilities were a decrease of ¥2,071 million in notes and accounts payable - trade, an increase of ¥1,196 million in electronically recorded obligations - operating, and an increase of ¥641 million in short-term debt.

Major factors of changes in net assets included an increase of ¥1,393 million in retained earnings, an increase of ¥1,233 million in unrealized holding gain on securities, and an increase of ¥514 million in treasury stock.

(Condition of cash flows)

Cash and cash equivalents (hereinafter referred to as “cash”) during the nine months ended December 31, 2016 increased by ¥633 million from the end of the previous fiscal year to ¥13,376 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 nine months ended December 31, 2016 amounted to ¥3,210 million (net cash provided of ¥2,454 million in the same period last year). This is mainly attributable to income before income taxes of ¥3,421 million, depreciation and amortization of ¥1,614 million, and a decrease of ¥1,037 million in notes and accounts payable - trade.

(Cash flows from investing activities)

Net cash used in investing activities during the nine months ended December 31, 2016 amounted to ¥1,350 million (net cash used of ¥1,686 million in the same period last year). This is mainly attributable to purchase of property, plant and equipment of ¥902 million such as production equipment.

(Cash flows from financing activities)

Net cash used in financing activities during the nine months ended December 31, 2016 amounted to ¥1,361 million (net cash used of ¥1,700 million in the same period last year). This was mainly attributable to dividends paid of ¥1,110 million, an increase of ¥961 million in short-term debt, and repayments of long-term debt of ¥580 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 3

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 December 31, 2016
Assets		
Current assets		
Cash and bank deposits	13,213	14,114
Notes and accounts receivable - trade	20,393	19,277
Electronically recorded monetary claims - operating	3,412	5,637
Merchandise and finished goods	5,757	5,220
Work in process	3,245	3,603
Raw materials and supplies	7,042	7,103
Costs on uncompleted construction contracts	249	171
Other receivables	360	376
Deferred tax assets	762	663
Others	925	535
Allowance for doubtful accounts	(24)	(25)
Total current assets	55,339	56,680
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	9,483	9,397
Machinery, equipment and vehicles, net	2,833	2,649
Land	6,450	6,465
Construction in progress	516	494
Others, net	1,104	1,019
Total property, plant and equipment	20,388	20,026
Intangible fixed assets	489	534
Investments and other assets		
Investments in securities	5,382	7,143
Deferred tax assets	651	195
Others	2,712	2,727
Allowance for doubtful accounts	(17)	(19)
Total investments and other assets	8,728	10,046
Total fixed assets	29,606	30,607
Total assets	84,945	87,287

(Million yen)

	As of March 31, 2016	As of December 31, 2016
Liabilities		
Current liabilities		
Notes and accounts payable - trade	12,701	10,629
Electronically recorded obligations - operating	1,922	3,119
Short-term debt	6,816	7,457
Accrued income taxes	220	348
Deferred tax liabilities	3	4
Reserve for bonuses to directors and corporate auditors	89	55
Others	4,085	4,525
Total current liabilities	25,839	26,139
Long-term liabilities		
Long-term debt	514	256
Lease obligations	304	206
Deferred tax liabilities	0	9
Deferred tax liabilities - revaluation	840	840
Net defined benefit liability	5,347	5,245
Total non-current liabilities	7,007	6,558
Total liabilities	32,846	32,698
Net assets		
Shareholders' equity		
Common stock	9,926	9,926
Capital surplus	11,460	11,460
Retained earnings	29,998	31,392
Treasury stock	(919)	(1,434)
Total shareholders' equity	50,466	51,345
Accumulated other comprehensive income		
Unrealized holding gain on securities	1,220	2,453
Revaluation reserve for land, net of tax	936	936
Foreign currency translation adjustments	1,365	1,547
Remeasurements of defined benefit plans	(1,895)	(1,699)
Total accumulated other comprehensive income	1,626	3,236
Non-controlling interests	6	6
Total net assets	52,099	54,589
Total liabilities and net assets	84,945	87,287

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

FY2016 Quarter 3 and FY2017 Quarter 3

(Million yen)

	FY2016 Quarter 3 (from April 1, 2015 to December 31, 2015)	FY2017 Quarter 3 (from April 1, 2016 to December 31, 2016)
Net sales	60,108	54,093
Cost of sales	46,073	41,662
Gross profit	14,034	12,430
Selling, general and administrative expenses	9,981	9,303
Operating income	4,053	3,127
Other income		
Interest income	29	21
Dividend income	113	122
Foreign exchange gains	-	53
Rent income	61	61
Others	113	70
Total other income	318	329
Other expenses		
Interest expense	45	24
Foreign exchange loss	76	-
Others	17	8
Total other expenses	139	33
Ordinary income	4,232	3,423
Extraordinary loss		
Loss on retirement of property, plant and equipment	-	2
Total extraordinary loss	-	2
Income before income taxes	4,232	3,421
Income taxes-current	772	945
Income taxes-deferred	718	(27)
Total income taxes	1,490	917
Profit	2,741	2,503
Profit attributable to non-controlling interests	0	0
Profit attributable to owners of parent	2,741	2,503

Quarterly Consolidated Statements of Comprehensive Income
FY2016 Quarter 3 and FY2017 Quarter 3

(Million yen)

	FY2016 Quarter 3 (from April 1, 2015 to December 31, 2015)	FY2017 Quarter 3 (from April 1, 2016 to December 31, 2016)
Profit	2,741	2,503
Other comprehensive income		
Unrealized holding gain on securities	(158)	1,233
Foreign currency translation adjustments	(141)	181
Remeasurements of defined benefit plans	149	195
Total other comprehensive income	(149)	1,610
Comprehensive income	2,592	4,114
Comprehensive income attributable to:		
Owners of parent	2,591	4,113
Non-controlling interests	0	0

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	FY2016 Quarter 3 (from April 1, 2015 to December 31, 2015)	FY2017 Quarter 3 (from April 1, 2016 to December 31, 2016)
Cash flows from operating activities		
Income before income taxes	4,232	3,421
Depreciation and amortization	1,439	1,614
Decrease (increase) in notes and accounts receivable - trade	3,271	(981)
Decrease (increase) in inventories	(593)	201
Increase (decrease) in notes and accounts payable - trade	(2,066)	(1,037)
Others	(559)	546
Subtotal	5,724	3,766
Income taxes paid	(3,360)	(671)
Others	90	115
Net cash provided by (used in) operating activities	2,454	3,210
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,558)	(902)
Others	(127)	(448)
Net cash provided by (used in) investing activities	(1,686)	(1,350)
Cash flows from financing activities		
Increase (decrease) in short-term debt	512	961
Proceeds from long-term debt	21	-
Repayments of long-term debt	(853)	(580)
Dividends paid	(1,117)	(1,110)
Acquisition of treasury stock	(6)	(514)
Others	(257)	(117)
Net cash provided by (used in) financing activities	(1,700)	(1,361)
Effect of exchange rate change on cash and cash equivalents	(104)	134
Net increase (decrease) in cash and cash equivalents	(1,037)	633
Cash and cash equivalents at beginning of year	13,151	12,743
Cash and cash equivalents at end of quarter	12,114	13,376

(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 3 (from April 1, 2015 to December 31, 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	42,987	6,334	3,467	6,413	906	60,108
Intersegment sales or transfers	16,560	48	23	2,998	11,467	31,098
Total	59,548	6,382	3,491	9,412	12,374	91,207
Segment profit	2,867	187	238	90	430	3,814

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	3,814
Elimination of intersegment transactions	238
Operating income in quarterly consolidated statements of income	4,053

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

(Change in depreciation method of property, plant and equipment)

The Company and its domestic consolidated subsidiaries previously used the declining-balance method for certain property, plant and equipment. 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 nine months ended December 31, 2015 increased by ¥162 million, compared with the amount under the formerly applied method.

II FY2017 Quarter 3 (from April 1, 2016 to December 31, 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	36,950	7,070	3,258	5,911	901	54,093
Intersegment sales or transfers	17,729	43	21	2,728	11,202	31,725
Total	54,679	7,114	3,280	8,640	12,104	85,819
Segment profit (loss)	2,139	379	216	(140)	283	2,879

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	2,879
Elimination of intersegment transactions	248
Operating income in quarterly consolidated statements of income	3,127