

FY2019 1st Quarter Consolidated Financial and Operating Results <IFRS>

(Overview – English translation of the Japanese original)

July 27, 2018

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: August 9, 2018

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 FY2019 Quarter 1 (from April 1, 2018 to June 30, 2018)

(1) Consolidated operating results (cumulative)

(% indicates changes from the previous term)

	Revenue		Operating profit		Profit before tax		Profit		Profit attributable to owners of parent		Total comprehensive income	
	¥ Million	%	¥ Million	%	¥ Million	%	¥ Million	%	¥ Million	%	¥ Million	%
FY2019 Quarter 1	22,382	9.3	2,602	45.1	2,918	53.2	2,161	46.7	2,161	46.7	2,324	(16.7)
FY2018 Quarter 1	20,480	14.4	1,793	70.8	1,904	159.0	1,473	159.4	1,473	159.4	2,789	-

	Basic earnings per share		Diluted earnings per share	
	Yen	Yen	Yen	Yen
FY2019 Quarter 1	178.55	-	-	-
FY2018 Quarter 1	120.52	-	-	-

The Company consolidated 5 shares of its common stock into 1 share effective as of October 1, 2017. Accordingly, basic earnings per share are calculated based on the assumption that the consolidation of shares was conducted at the beginning of the previous fiscal year.

(2) Consolidated financial position

	Total assets		Total equity		Equity attributable to owners of parent		Ratio of equity attributable to owners of parent		Equity attributable to owners of parent per share	
	¥ Million	¥ Million	¥ Million	¥ Million	¥ Million	%	¥	Yen	Yen	
FY2019 Quarter 1	109,390	63,791	63,784	58.3	5,269.15					
FY2018 Full year	107,631	62,135	62,127	57.7	5,132.20					

2. Dividends

	Annual cash dividend per share				
	1Q	2Q	3Q	4Q	Annual
	Yen	Yen	Yen	Yen	Yen
FY2018	-	10.00	-	55.00	-
FY2019	-	-	-	-	-
FY2019 (Forecast)	-	55.00	-	55.00	110.00

Note: Revision to the dividend forecast: None

Whereas an underlying share for the dividend at the end of the second quarter is not affected by the consolidation of shares, an underlying share for the dividend at the end of the fiscal year takes into account the consolidation of shares. Therefore, these cannot be simply summed up to calculate the total amount of the annual dividend in the current fiscal year and is indicated as “-”.

3. Forecast for FY2019 (from April 1, 2018 to March 31, 2019)

(% indicates changes from the previous corresponding term)

	Revenue		Operating profit		Profit before tax		Profit attributable to owners of parent		Basic earnings per share
	¥ Million	%	¥ Million	%	¥ Million	%	¥ Million	%	Yen
Interim period	48,900	15.8	5,400	39.4	5,500	37.7	3,900	34.5	322.17
Full year	99,600	11.7	11,000	25.2	11,100	30.0	7,800	21.6	644.33

Note: Revision to the business results forecast: None

4. Others

(1) Significant changes in subsidiaries during FY2019 Quarter 1: None
(Change of certain subsidiaries that involves the scope of consolidation)

(2) Changes in accounting policies and changes in accounting estimates

1) Changes in accounting policies required by IFRS: Yes

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

3) Changes in accounting estimates: None

(3) Number of issued shares (common shares)

1) Number of issued shares at the end of the period (including treasury shares)

FY2019 Quarter 1	12,972,187 shares	FY2018	12,972,187 shares
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2) Number of treasury shares at the end of the period

FY2019 Quarter 1	866,913 shares	FY2018	866,678 shares
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3) Average number of shares during the period

FY2019 Quarter 1	12,105,339 shares	FY2018 Quarter 1	12,227,571 shares
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The Company consolidated 5 shares of its common stock into 1 share effective as of October 1, 2017. Accordingly, average number of shares during the period is calculated based on the assumption that the consolidation of shares was conducted at the beginning of the previous fiscal year.

* These quarterly consolidated financial results are outside the scope of the quarterly review procedures by a certified public accountant or an auditing firm.

*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 FY2019 Quarter 1

(1) Explanation of Operating Results

During the three months ended June 30, 2018, the Japanese economy remained on a gradual recovery trend, aided by solid exports, as well as robust capital investment due to improved corporate earnings.

Under such circumstances, although the Chinese market experienced a slowdown to a certain extent, demand was favorable for machine tools, robots, and semiconductor manufacturing equipment in the equipment industries, which are the Group's main target markets.

As a result, consolidated revenue totaled ¥22,382 million in the three months ended June 30, 2018, up 9.3% from the same period last year. Consolidated operating profit increased by 45.1% to ¥2,602 million, consolidated profit before tax increased by 53.2% to ¥2,918 million, and profit attributable to owners of parent amounted to ¥2,161 million, up 46.7%.

Orders received decreased by 11.5% to ¥22,200 million, and order backlog increased by 16.2% to ¥22,361 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 revenue amounted to ¥22,608 million, up 9.9% from the same period last year. Segment profit increased by 39.9% to ¥1,850 million.

2) North America

The Company has a consolidated subsidiary in North America: SANYO DENKI AMERICA, INC. Segment revenue decreased by 1.0% to ¥2,767 million. Segment profit decreased by 13.2% to ¥189 million.

3) Europe

The Company's consolidated subsidiaries operating in Europe are SANYO DENKI EUROPE S.A. and SANYO DENKI GERMANY GmbH. Segment revenue increased by 10.8% to ¥1,349 million. Segment profit increased by 31.1% to ¥106 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., and SANYO DENKI ENGINEERING (Shenzhen) CO., LTD. Segment revenue decreased by 11.3% to ¥3,653 million. Segment profit increased by 73.8% to ¥255 million.

5) Southeast Asia

The Company's consolidated subsidiaries operating in Southeast Asia include SANYO DENKI PHILIPPINES, INC., SANYO DENKI SINGAPORE PTE. LTD., SANYO DENKI INDIA PRIVATE LIMITED and SANYO DENKI (THAILAND) CO., LTD. Segment revenue increased by 19.1% to ¥6,180 million. Segment profit increased by 428.9% to ¥287 million.

The general state of business by division is as follows:

1) Cooling Systems Division

“San Ace,” Sanyo Denki’s brand name for cooling system products, experienced increased demand for factory automation (FA), medical equipment and digital signages. Demand for communications equipment and high-end servers was also solid. In contrast, we saw a decline in demand for power conditioners for photovoltaic generation.

As a result, revenue increased by 3.1% year on year to ¥6,285 million. The amount of orders received decreased by 0.3% to ¥6,326 million, and the order backlog increased by 6.5% to ¥4,082 million.

2) Power Systems Division

“SANUPS,” Sanyo Denki’s brand name for power supply equipment, saw stagnant demand due to a slump in the photovoltaic power market and the information and telecommunications market. On the other hand, demand for FA equipment such as semiconductor manufacturing equipment remained solid.

As a result, revenue decreased by 14.4% year on year to ¥1,305 million. The amount of orders received increased by 2.9% to ¥1,802 million, and the order backlog decreased by 4.0% to ¥2,313 million.

3) Servo Systems Division

“SANMOTION,” Sanyo Denki’s brand name for servo system products, experienced a slowdown in demand for machine tools due to a decreased demand for capital investment in smartphone manufacturing in China. On the other hand, demand for robots, injection molding machines, semiconductor manufacturing equipment and electronic part surface mounters was favorable.

As a result, revenue increased by 16.7% year on year to ¥13,502 million. The amount of orders received decreased by 20.0% to ¥12,585 million, and the order backlog increased by 20.8% to ¥14,276 million.

4) Electrical Equipment Sales Division

As for sales of industrial electrical equipment, control equipment and material for electronic equipment, demand for industrial equipment in the robot-related and machine tool-related markets as well as medical-related and semiconductor-related equipment remained solid. Domestic demand for photovoltaic generation-related equipment declined.

In iron and steel-related business sectors, demand for works related to the replacement of aged equipment for production facilities and spare parts for repair developed as planned.

As a result, revenue increased by 12.0% year on year to ¥955 million. The amount of orders received increased by 26.8% to ¥1,083 million, and the order backlog increased by 64.4% to ¥818 million.

5) Electrical Works Contracting Division

Electrical works in steel mill plants saw a solid growth as the volume of renewal construction and repair works for aged electrical equipment was in line with the initial plan. However, works related to renewable energy and energy saving experienced declined demand for installation of large photovoltaic generation facilities.

As a result, revenue decreased by 23.8% year on year to ¥333 million. The amount of orders received dropped by 2.6% to ¥402 million, and the order backlog increased by 25.9% to ¥870 million.

(2) Explanation of Financial Position

As for the financial position at the end of the three months ended June 30, 2018, total assets increased by ¥1,759 million from the end of the previous fiscal year, total liabilities increased by ¥102 million, and total equity increased by ¥1,656 million.

Major factors of changes in assets were an increase of ¥1,909 million in inventories, an increase of ¥1,197 million in property, plant and equipment, and a decrease of ¥1,187 million in trade and other receivables.

Major factors of changes in liabilities were an increase of ¥2,392 million in borrowings (current liabilities), a decrease of ¥1,464 million in trade and other payables, and a decrease of ¥1,124 million in income taxes payable.

Major factors of changes in equity included an increase of ¥1,662 million in retained earnings, and a decrease of ¥3 million in other components of equity.

(Condition of cash flows)

Cash and cash equivalents (hereinafter referred to as "cash") at the end of the three months ended June 30, 2018 decreased by ¥116 million from the end of the previous fiscal year to ¥13,065 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 three months ended June 30, 2018 amounted to ¥738 million (net cash provided of ¥1,246 million in the same period last year). This is mainly attributable to profit before tax of ¥2,918 million, an increase of ¥1,682 million in inventories, and income taxes paid of ¥1,469 million.

(Cash flows from investing activities)

Net cash used in investing activities during the three months ended June 30, 2018 amounted to ¥2,520 million (net cash used of ¥1,154 million in the same period last year). This is mainly attributable to purchase of property, plant and equipment of ¥1,603 million and purchase of intangible assets of ¥771 million.

(Cash flows from financing activities)

Net cash provided by financing activities during the three months ended June 30, 2018 amounted to ¥1,615 million (net cash provided of ¥338 million in the same period last year). This is mainly attributable to net increase in short-term borrowings of ¥2,396 million and dividends paid of ¥666 million.

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

No revisions have been made to the business results forecast for the fiscal year ending March 31, 2019, which was announced on April 26, 2018.

2. Condensed Consolidated Financial Statements and Primary Notes

(1) Condensed Consolidated Statements of Financial Position

(Million yen)

	Note	As of March 31, 2018	As of June 30, 2018
Assets			
Current assets			
Cash and cash equivalents		13,182	13,065
Trade and other receivables		30,835	29,648
Other financial assets		751	969
Inventories		21,052	22,961
Other current assets		916	976
Total current assets		66,738	67,621
Non-current assets			
Property, plant and equipment		23,720	24,917
Intangible assets		4,031	4,156
Investment property		1,503	1,503
Other financial assets		10,760	10,367
Deferred tax assets		477	419
Other non-current assets		398	403
Total non-current assets		40,892	41,768
Total assets		107,631	109,390
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables		24,987	23,522
Borrowings		5,944	8,337
Other financial liabilities		241	293
Income taxes payable		1,594	469
Other current liabilities		2,081	2,420
Total current liabilities		34,849	35,044
Non-current liabilities			
Borrowings		3,889	3,860
Other financial liabilities		76	68
Net defined benefit liability		6,454	6,215
Deferred tax liabilities		50	240
Other non-current liabilities		175	170
Total non-current liabilities		10,646	10,554
Total liabilities		45,495	45,598
Equity			
Share capital		9,926	9,926
Share premium		11,460	11,460
Retained earnings		41,361	43,024
Treasury shares		(2,406)	(2,408)
Other components of equity		1,784	1,780
Total equity attributable to owners of parent		62,127	63,784
Non-controlling interests		7	7
Total equity		62,135	63,791
Total liabilities and equity		107,631	109,390

(2) Condensed Consolidated Statements of Income and Comprehensive Income
Condensed Consolidated Statements of Income
Three months ended June 30, 2017 and 2018

(Million yen)

	Note	From April 1, 2017 to June 30, 2017	From April 1, 2018 to June 30, 2018
Revenue		20,480	22,382
Cost of sales		15,199	16,251
Gross profit		5,280	6,130
Selling, general and administrative expenses		3,522	3,603
Other income		39	78
Other expenses		4	2
Operating profit		1,793	2,602
Finance income		117	338
Finance costs		6	22
Profit before tax		1,904	2,918
Income tax expense		431	757
Profit		1,473	2,161
Profit attributable to			
Owners of parent		1,473	2,161
Non-controlling interests		0	0
Profit		1,473	2,161
Earnings per share			
Basic earnings per share (yen)		120.52	178.55

*The Company consolidated 5 shares of its common stock into 1 share effective as of October 1, 2017. Accordingly, basic earnings per share are calculated based on the assumption that the consolidation of shares was conducted at the beginning of the previous fiscal year.

Condensed Consolidated Statements of Comprehensive Income
 Three months ended June 30, 2017 and 2018

(Million yen)

	Note	From April 1, 2017 to June 30, 2017	From April 1, 2018 to June 30, 2018
Profit		1,473	2,161
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Financial assets measured at fair value through other comprehensive income		830	(311)
Remeasurements of defined benefit plans		355	167
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		129	306
Total other comprehensive income		1,315	162
Comprehensive income		2,789	2,324
Comprehensive income attributable to			
Owners of parent		2,788	2,324
Non-controlling interests		0	0
Comprehensive income		2,789	2,324

(3) Condensed Consolidated Statements of Changes in Equity
 Three months ended June 30, 2017 (from April 1, 2017 to June 30, 2017)

(Million yen)

	Note	Share capital	Share premium	Retained earnings	Treasury shares	Other components of equity	
						Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans
Balance at April 1, 2017		9,926	11,460	35,526	(1,436)	2,789	–
Profit		–	–	1,473	–	–	–
Other comprehensive income		–	–	–	–	830	355
Comprehensive income		–	–	1,473	–	830	355
Purchase of treasury shares		–	–	–	(3)	–	–
Dividends		–	–	(550)	–	–	–
Transfer to retained earnings		–	–	355	–	–	(355)
Total transactions with owners and other		–	–	(194)	(3)	–	(355)
Balance at June 30, 2017		9,926	11,460	36,805	(1,440)	3,619	–

	Note	Other components of equity		Total equity attributable to owners of parent	Non-controlling interests	Total equity
		Exchange differences on translation of foreign operations	Total			
Balance at April 1, 2017		(1,219)	1,570	57,048	6	57,054
Profit		–	–	1,473	0	1,473
Other comprehensive income		129	1,314	1,314	0	1,315
Comprehensive income		129	1,314	2,788	0	2,789
Purchase of treasury shares		–	–	(3)	–	(3)
Dividends		–	–	(550)	(0)	(550)
Transfer to retained earnings		–	(355)	–	–	–
Total transactions with owners and other		–	(355)	(553)	(0)	(554)
Balance at June 30, 2017		(1,089)	2,529	59,282	6	59,289

Three months ended June 30, 2018 (from April 1, 2018 to June 30, 2018)

(Million yen)

	Note	Share capital	Share premium	Retained earnings	Treasury shares	Other components of equity	
						Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans
Balance at April 1, 2018		9,926	11,460	41,361	(2,406)	3,320	–
Profit		–	–	2,161	–	–	–
Other comprehensive income		–	–	–	–	(311)	167
Comprehensive income		–	–	2,161	–	(311)	167
Purchase of treasury shares		–	–	–	(2)	–	–
Dividends		–	–	(665)	–	–	–
Transfer to retained earnings		–	–	166	–	0	(167)
Total transactions with owners and other		–	–	(498)	(2)	0	(167)
Balance at June 30, 2018		9,926	11,460	43,024	(2,408)	3,010	–

	Note	Other components of equity		Total equity attributable to owners of parent	Non-controlling interests	Total equity
		Exchange differences on translation of foreign operations	Total			
Balance at April 1, 2018		(1,536)	1,784	62,127	7	62,135
Profit		–	–	2,161	0	2,161
Other comprehensive income		307	163	163	(0)	162
Comprehensive income		307	163	2,324	0	2,324
Purchase of treasury shares		–	–	(2)	–	(2)
Dividends		–	–	(665)	(0)	(665)
Transfer to retained earnings		–	(166)	–	–	–
Total transactions with owners and other		–	(166)	(667)	(0)	(667)
Balance at June 30, 2018		(1,229)	1,780	63,784	7	63,791

(4) Condensed Consolidated Statements of Cash Flows

(Million yen)

Note	From April 1, 2017 to June 30, 2017	From April 1, 2018 to June 30, 2018
Cash flows from operating activities		
	1,904	2,918
Profit before tax		
Depreciation and amortization expense	804	931
Interest and dividend income	(103)	(117)
Interest expenses	5	21
Decrease (increase) in trade and other receivables	743	1,286
Decrease (increase) in inventories	(2,051)	(1,682)
Increase (decrease) in trade and other payables	954	(826)
Other, net	(141)	(415)
Subtotal	2,116	2,116
Interest received	8	11
Dividend received	93	104
Interest paid	(5)	(25)
Income taxes paid	(966)	(1,469)
Net cash flows from operating activities	1,246	738
Cash flows from investing activities		
Purchase of property, plant and equipment	(978)	(1,603)
Purchase of intangible assets	(214)	(771)
Proceeds from sales of property, plant and equipment and intangible assets	(1)	1
Proceeds from sales of other financial assets	2	-
Other, net	37	(147)
Net cash flows from investing activities	(1,154)	(2,520)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	1,007	2,396
Repayments of long-term borrowings	(88)	(86)
Purchase of treasury shares	(3)	(2)
Dividends paid	(550)	(666)
Other, net	(26)	(25)
Net cash flows from financing activities	338	1,615
Effect of exchange rate changes on cash and cash equivalents	110	49
Net increase (decrease) in cash and cash equivalents	539	(116)
Cash and cash equivalents at beginning of period	13,766	13,182
Cash and cash equivalents at end of period	14,306	13,065

(5) Notes on Condensed Consolidated Financial Statements

(Notes on Going Concern Assumption)

There is no relevant information.

(Changes in Accounting Policies)

The Group has adopted IFRS 15 “Revenue from Contracts with Customers” from the three months ended June 30, 2018. This adoption does not have a material effect on the Group’s consolidated financial statements.

Except for IFRS 15 “Revenue from Contracts with Customers,” significant accounting policies applied in the accompanying condensed consolidated financial statements are the same as those applied in the Group’s consolidated financial statements for the previous fiscal year.

(Segment Information, etc.)

1 Overview of reportable segments

The Group’s reportable segments are determined on the basis that separate financial information of such segments are available and examined periodically by the Board of Directors to make decisions regarding the allocation of management resources and assess the business performances of such segments.

The Group mainly produces and sells cooling fans, power supply equipment and servomotors, and operates the business globally through strategic planning with a focus on regional characteristics.

Reportable segments are composed of five reportable segments, namely, Japan, North America, Europe, East Asia and Southeast Asia, which are determined by regional characteristics including economic blocs in which the business is operated. In determining reportable segments, the Group has not aggregated operating segments.

2 Information on reportable segments

Three months ended June 30, 2017 (from April 1, 2017 to June 30, 2017)

(Million yen)

	Reportable segment						Adjustments (Note 2)	Consolidated
	Japan	North America	Europe	East Asia	Southeast Asia	Total		
Revenue								
Revenue from external customers	13,703	2,767	1,212	2,528	267	20,480	–	20,480
Intersegment revenue or transfers (Note 1)	6,864	28	5	1,588	4,921	13,407	(13,407)	–
Total	20,568	2,795	1,218	4,116	5,188	33,887	(13,407)	20,480
Segment profit	1,323	217	80	147	54	1,823	(29)	1,793
Finance income	–	–	–	–	–	–	–	117
Finance costs	–	–	–	–	–	–	–	6
Profit before tax	–	–	–	–	–	–	–	1,904

Notes: 1. Intersegment transaction prices are based on prevailing market prices.

2. Adjustments of segment profit of ¥(29) million are elimination of intersegment transactions.

Three months ended June 30, 2018 (from April 1, 2018 to June 30, 2018)

(Million yen)

	Reportable segment							Adjustments (Note 2)	Consolidated
	Japan	North America	Europe	East Asia	Southeast Asia	Total			
Revenue									
Revenue from external customers	15,305	2,759	1,339	2,669	308	22,382	–	22,382	
Intersegment revenue or transfers (Note 1)	7,302	8	10	983	5,872	14,176	(14,176)	–	
Total	22,608	2,767	1,349	3,653	6,180	36,558	(14,176)	22,382	
Segment profit	1,850	189	106	255	287	2,688	(85)	2,602	
Finance income	–	–	–	–	–	–	–	338	
Finance costs	–	–	–	–	–	–	–	22	
Profit before tax	–	–	–	–	–	–	–	2,918	

Notes: 1. Intersegment transaction prices are based on prevailing market prices.

2. Adjustments of segment profit of ¥(85) million are elimination of intersegment transactions.