

Fiscal 2018 Performance in Focus (April 1, 2018 – March 31, 2019)

1. Overview of Operating Results

(1) Overview of Operating Results for the Fiscal Year under Review

During the year ended March 31, 2019 (fiscal 2018) under review, the global economy generally remained steady until the first half, but in the second half, business sentiment worsened due to the US-China trade friction problem, and uncertainty about the future increased. While the US economy remained firm on the back of improvement in the employment situation and other factors, the Chinese economy showed a decelerating tendency. In Europe, there has been growing concern about the confusion caused by Brexit, and in Japan, the pace of growth has been moderate because of a series of natural disasters and the slowdown of overseas economies.

In the electronics industry to which UMC Electronics Co., Ltd and its consolidated subsidiaries (hereinafter collectively referred to as "UMC Electronics" or "the Group") belongs, the electrification of automotive equipment has progressed in response to the response to CASE (Connected, Autonomous, Shared & Services, Electric). In the industrial equipment market, demand for FA equipment related mainly in China slowed.

In this business environment, the UMC Electronics will develop its own production system, which has been cultivated in China, which is a key factory, at all bases in the group to provide the same level of manufacturing service on a global basis. We flexibly respond to the growing needs of our customers for optimal production. In addition, UMC H Electronics Co., Ltd. (former Hitachi Information & Telecommunication Manufacturing, Ltd.), which has been newly added to our group since last July, is engaged in various production improvement projects, including the automotive field. UMC Electronics are working to lead to the acquisition of new business.

In the fiscal year under review, the group began mass production of critical safety parts in response to the shift to global electrification (PHV, EV) in the automotive equipment field. In addition, the Group have been focusing on the launch of the Mexican factory for some time, but many new projects have been launched mainly in the automotive equipment field, and we will continue to strengthen the production capacity and structure of the entire group. And the group is working on the realization of the advanced smart factory by integrating LCA (Low Cost Automation, self-developed automated and labor-saving equipment) and core system, which have been introduced at all manufacturing bases. The Group will work to strengthen data analysis using AI and Big data, and to improve design and manufacturing quality such as DFM (Design for Manufacturability).

The average exchange rate for the fiscal year under review was 110.91 yen to 1 US dollar (110.86 yen to 1 US dollar for the previous fiscal year), almost the same level as in the previous fiscal year.

As a result, consolidated net sales for the fiscal year under review come to 139,562 million yen, up 11.0% from the previous fiscal year. In terms of profits, operating income was 1,968 million yen, down 22.6% from the previous fiscal year, mainly due to the preparation of multiple automotive equipment projects scheduled to be launched one after another and the start-up of a Mexican factory. Ordinary income amounted 1,029 million yen, down 50.4% year on year, mainly due to foreign exchange losses at overseas subsidiaries associated with the depreciation of emerging market currencies in the first half. Profit attributable to owners of parent was 858 million yen, down 43.5% year on year.

Although the UMC Electronics Group operates two segments: the EMS business and the Other business. Segment information is not provided in this document because the EMS business accounts for overwhelming majority of the group's operations.

Consolidated net sales for the EMS business and consolidated net sales for the Other business are as follows. Consolidated net sales shown below are the figures after the elimination of inter-company transactions.

(i) EMS business

Consolidated net sales for the EMS business, which is the UMC Electronics Group's core business, increased 138,955 million yen, up 10.9% from the previous fiscal year.

The results by product category are outlined below.

(Automotive equipment)

Consolidated net sales were 63,134 million yen, up 20.2% from the previous fiscal year due to strong sales of power control products and other critical safety parts in addition to the expansion of exterior products accompanying the conversion of lights to LEDs.

(Industrial equipment)

FA equipment related fields decreased mainly in the Chinese market, but in addition to the contribution from sales of servers, storage and network equipment of UMC H Electronics, which became a consolidated subsidiary from the second quarter, orders for finished products of semiconductor inspection equipment. As a result, consolidated net sales for industrial equipment increased 35,930 million yen, up 15.9% from the previous fiscal year.

(Office automation equipment)

Consolidated Net sales were 29,711 million yen, up 15.5% from the previous fiscal year due to strong sales in the printer market.

(Consumer equipment)

Consolidated net sales decreased to 3,932 million yen, down 42.9% due to the end of some products of major customers.

(Information equipment)

Consolidated net sales of information equipment dropped 9.1% year on year, to 4,121 million yen, with optical pickup products, for which relatively stable production is expected, having become a major product for sales.

(Others)

Consolidated net sales of the Other business come to 2,124 million yen, down 53.6% from the previous fiscal year due to a decrease in amusement equipment.

(ii) Other business

The temporary staffing business performed well, and consolidated net sales amounted to 607 million yen, up 48.2% from the previous fiscal year.

(2) Overview of financial Position in the Fiscal Year under Review

Status of assets, liabilities and net assets

Total assets at the end of the fiscal year under review amounted to 79,792 million yen, up 21.1% from the end of the previous fiscal year. This is mainly due to an increase in inventories, land acquisition, and an increase in tangible fixed assets associated with capital investment.

Liabilities at the end of the fiscal year under review totaled 53,204 million yen, up 11.6% from the previous fiscal year. This was mainly due to an increase in accounts payable and an increase in short-term loans.

Net assets amounted to 26,588 million yen, up 46.0% from the end of the previous fiscal year. This is mainly attribute to an increase in capital and capital surplus due to public offering and disposal of treasury stock.

(3) Overview of Cash Flows in the Fiscal Year under Review

Consolidated cash and cash equivalents amounted 6,422 million yen at the end of the fiscal year under review, up 12.8% from the previous fiscal year.

(Cash flow from operating activities)

Net cash used by operating activities resulted in an outflow of 108 million yen (compared with net cash used such activities of 132 million yen in the previous fiscal year). This was mainly due to an increase in inventories (6,540 million yen) and interest payments (644 million yen) while there were non-cash items. Non-cash items include depreciation and amortization (2,878 million yen), a decrease in trade receivables (2,828 million yen), income before income taxes and minority interests (1,168 million yen), etc.

(Cash flow from investing activities)

Net cash used in investing activities amounted to 6,721 million yen (compared with net cash used in investing activities of 5,881 million yen in the previous fiscal year). This was mainly due to the purchase of property, plant and equipment (7,594 million yen).

(Cash flow from financing activities)

Net cash provided in financing activities totaled 7,823 million yen (compared with net cash provided in financing activities of 2,073 million yen in the previous fiscal year). This was mainly due to proceeds from issuance of common shares (6,659 million yen) and proceeds from disposal of treasury shares (1,707 million yen).

Reference data: Changes in indexes related to flows

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Capital adequacy ratio (%)	27.4	27.6	33.2
Capital adequacy ratio based on market value (%)	41.7	64.9	38.4
Ratio of cash flow to interest-bearing debt (year)	10.3	-	-
Interest-coverage ratio (times)	5.6	-	-

Note: Calculation method for respective indexes

- Capital adequacy ratio: shareholders' equity / total assets
 - Capital adequacy ratio based on market value: total market capitalization / total assets
 - Ratio of cash flow to interest-bearing debt: interest-bearing liabilities / cash flows from operating activities
 - Interest coverage ratio: Cash flows from operating activities / interest payment
1. Consolidated financial figures are used for calculating the respective indexes.
 2. Total market capitalization is calculated by multiplying the closing share price at the end of the fiscal year (in the first section of the Tokyo Stock Exchange) by the number of outstanding shares at the end of the fiscal year (after the subtraction of treasury stock).
 3. Interest-bearing liabilities include all liabilities stated in the consolidated balance sheets on which interest is paid. Cash flows from operating activities stated in the consolidated statements of cash flows are used as cash flows from operating activities.
 4. Interest paid stated in the consolidated statements of cash flows is used as interest payment.
 5. The ratio of interest-bearing liabilities to cash flows and the interest coverage ratio for the fiscal year ended March 31, 2018 are not presented above because cash flows from operating activities are negative.

(4) Forecasts

In the following fiscal year, while handling of automotive equipment and office automation related equipment will expand, continuing on from the previous fiscal year, the upfront investment burden for future business such as

new automotive equipment projects of PHV / EV and maintenance of structure of Mexican factory are expected. As a result, in the fiscal year ending March 31, 2020, the UMC Electronics Group forecasts that it will achieve consolidated net sales of 154,982 million yen (up 11.0% from the fiscal year ended March 31, 2019), consolidated operating income of 2,200 million yen (up 11.7% year on year), consolidated ordinary income of 1,150 million yen (up 11.7% year on year), and consolidated profit attributable to owners of parent of 830 million yen (down 3.3% year on year). The foreign exchange rate assumed in the above forecast are US\$1 = 109 yen.

In addition, in the medium-term management plan announced in May 2018, the Company has set the business targets of “200 billion yen in sales in fiscal 2020 and 5 billion yen in operating income”. We will continue working on strengthening manufacturing collaboration with Hitachi Ltd., which we have identified as important measures to achieve the target, and new projects related to in-vehicle PHV and EV. In addition, with the medium-term business plan announced in May 2018, we set the business targets of “200 billion yen in sales in fiscal 2020 and 5 billion yen in operating income”, and in light of the recording of costs for the transfer of production sites aimed at responding to customers' optimum production, we decided to make the fiscal year 2021. Regarding this business target, the fiscal year of achievement will be fiscal 2021 as a result of the slowing of the industrial equipment field for the Chinese market and the recording of costs for the transfer of production areas aimed at responding to customers' optimal production.

(5) Notes on Going Concern Assumption

There are no applicable items.

2. Significant Accounting Policies

The UMC Electronics Group plans to use Japanese standards for the preparation of its consolidated financial statements for the time being, considering the possibility of the inter-period and inter-company comparison of the statements.

Net Sales by Product Category

(Millions of yen)

	FY2017	FY2018
EMS business		
Automotive equipment	52,538	63,134
Share	41.8%	45.2%
YoY	19.5%	20.2%
Industrial equipment	31,002	35,928
Share	24.7%	25.7%
YoY	15.2%	15.9%
Office automation equipment	25,726	29,711
Share	20.5%	21.3%
YoY	19.7%	15.5%
Consumer equipment	6,889	3,932
Share	5.5%	2.8%
YoY	-17.6%	-42.9%
Information equipment	4,534	4,121
Share	3.6%	3.0%
YoY	-34.2%	-9.1%
Other EMS	4,575	2,126
Share	3.6%	1.5%
YoY	20.5%	-53.5%
Other business	409	607
Share	0.3%	0.4%
YoY	-18.0%	48.2%
Total	125,676	139,562
YoY	12.3%	11.0%