UMC Electronics Co., Ltd.

Fiscal 2016 3Q Performance in Focus (April 1, 2016 – December 31, 2016)

1. **Qualitative Information on Quarterly Financial Results**

(1) **Explanation of Operating Results**

In the first three quarters of the fiscal year under review, the global economy stayed mostly firm despite uncertainty about the economic outlook generated by the rise of protectionism in the United States and Europe.

In the United States, the FRB raised interest rates for the first time in a year, emboldened by solid job growth and, with the new administration proposing massive fiscal stimulus, multiple rate increases are expected over the coming year. Meanwhile, factors such as oil price recovery, an upswing in capital expenditures, growth in home sales, rising wages and continued expansion in consumer spending are expected to lead to acceleration in economic growth.

In China, private sector investment showed signs of bottoming out, and factors such as a surge in car sales, growth in home sales, and expansion in public-sector investment led to a temporary respite in economic deceleration. However, a decline in exports is feared amid rising protectionist tendencies. In the EU, although there is still deep uncertainty about the political and economic outlook created by Brexit, monetary easing has helped bring about improvement in the labor market and stabilize consumer spending, and the EU economy is on a recovery path.

In Japan, exports and production are picking up and corporate earnings are improving, bolstered by the weaker yen. The increase in consumption tax scheduled for April 2017 was delayed until October 2019 and, with the quantitative and qualitative easing policy framework aimed at overcoming deflation remaining in place, consumption is also coming out of the doldrums and starting to pick up.

The electronics industry, in which the UMC Electronics Group operates, remained mostly firm, largely due to growth in sales of electronic components for smartphones and automotive electronic equipment to China and Asia.

In this business environment, the UMC Electronics Group's automotive precision metal mold and molding operations, which the Group made into a subsidiary in the previous fiscal year, performed strongly, producing synergy through integrated operation with board mounting operations. Meanwhile, transactions volumes for automotive equipment and industrial equipment products, which have long been a focus of the Group, continued to show stable growth. Consequently, the ratio of automotive and industrial equipment sales reached the FY2018 target ahead of schedule. The UMC Electronics Group continued promoting the introduction of LCA (Low Cost Automation) at all its manufacturing sites and working to lay the foundations for smart factories.

As a result of these activities, operating income continued to grow at a historical rate. In particular, during the current period, the Group participated in various exhibitions and worked to increase name recognition for further business expansion. The Group also made progress with the consolidation of operations at its Qiaotou Plant in China to strengthen competitiveness with lower costs and shorter delivery times, and control over operations is expected to be transferred completely during the current fiscal year. In China, regulations that make it obligatory for finished auto manufacturers to produce and import a certain percentage of "New Energy Vehicles" such as EV and PHEV are also expected to be introduced. Behind the scenes, the Group launched numerous new projects at each base, including new environmentally-friendly products in the automotive equipment sector, and actively worked on strengthening development, design and trial production capabilities for future business expansion. The Group also launched the Management Quality Improvement Committee to strengthen its management base.

In addition, the Group recorded workers' retirement allowances and other expenses associated with the consolidation of operations at its Qiaotou Plant as business structure improvement expenses under extraordinary losses.

As a result, consolidated net sales for the first three quarters of the fiscal year under review came to 82, 205 million yen, falling 1,116 million yen (or 1.3%) from the same period of the previous year.

Operating income was 2,273 million yen, rising 659 million yen (or 40.9%) year on year. Ordinary income amounted to 1,628 million yen, climbing 100 million yen (or 6.5%) year on year. Profit attributable to owners of parent was 836 million yen, a decline of 412 million yen (or 33.0%) year on year.

The UMC Electronics Group operates across two segments: the EMS business and Other business, but the majority of the Group's business is the EMS business, thus segment information is omitted.

The net sales of the EMS business by product category and the net sales of Other business are as follows. Net sales amounts are net sales after elimination of inter-company transactions.

(i) EMS business

Net sales of the EMS business, which is the UMC Electronics Group's core business, came to 81,791 million yen, falling 1,225 million yen (or 1.5%) from the same period of the previous year. Results by product category are outlined below.

(Automotive equipment)

Net sales of automotive equipment were 30,803 million yen, rising 5,536 million yen (or 21.9%) year on year, due to an increase in the products handled owing to progress in vehicle electrification and a succession of new projects such as power system boards for environmentally-friendly vehicles.

(Industrial equipment)

Net sales of industrial equipment were 19,552 million yen, climbing 657 million yen (or 3.5%) year on year, reflecting an upward trend in the Chinese market fueled by strong capital investment demand related to smartphones and auto manufacturing.

(Consumer equipment)

Net sales of consumer equipment were 6,668 million yen, falling 3,370 million yen (or 33.6%) year on year due to the effect of slowdown in the markets of major Japanese customers.

(Office automation)

Net sales of office automation equipment were 15,795 million yen, declining 3,871 million yen (or 19.7%) year on year, due to stagnation of the office automation equipment market.

(Information equipment)

Net sales of information equipment were 5,572 million yen, falling 1,433 million yen (or 20.5%) year on year, due to contraction in the market for products for recording and reproducing drives.

(Other EMS)

Net sales of other EMS were 3,398 million yen, rising 1,256 million yen (or 58.7%) year on year, reflecting a stable transaction volume for amusement equipment.

(ii) Other business

Net sales of other business were 413 million yen, expanding 109 million yen (or 35.8%) year on year due to strong results in the temporary staffing business.

(2) Explanation of Financial Position

(i) Status of assets, liabilities and net assets

Total assets as of the end of the third quarter under review came to 63,624 million yen, an increase of 12.2% compared to the end of the previous fiscal year.

This increase is mainly attributable to an increase in inventories, an increase in construction in progress due to the construction of a plant in Mexico, and an increase in investment securities.

Liabilities amounted to 47,188 million yen, a rise of 15.8% from the end of the previous fiscal year. This rise is mainly attributable to an increase in notes and accounts payable-trade.

Net assets were 16,435 million yen, climbing 3.0% from the end of the previous fiscal year. This increase is mainly attributable to an increase in retained earnings.

(3) **Explanation of Forward-Looking Information including Forecast of Consolidated Results**

No revisions have been made to the forecast of consolidated results announced in the Summary of Financial Results for the Fiscal Year Ended March 31, 2016 on May 13, 2016.

Net Sales by Product Category

(Millions of yen)

		FY2015/3Q	FY2016/3Q
EMS business			
Automotive equipment		25,267	30,803
	Share	30.3%	37.5%
	YoY	-%	21.9%
Industrial equipment		18,895	19,552
	Share	22.7%	23.8%
	YoY	-%	3.5%
Consumer equipment		10,039	6,668
	Share	12.0%	8.1%
	YoY	-%	-33.6%
Office automation		19,667	15,795
	Share	23.6%	19.2%
	YoY	-%	-19.7%
Information equipment		7,007	5,572
	Share	8.4%	6.8%
	YoY	-%	-20.5%
Other EMS		2,142	3,398
	Share	2.6%	4.1%
	YoY	-%	58.7%
Other business		305	413
	Share	0.4%	0.5%
	YoY	-%	35.8%
Total		83,321	82,205
	YoY	-%	-1.3%