UMC Electronics Co., Ltd.

Fiscal 2017 Performance in Focus
(April 1, 2017 – March 31, 2018)

1. Overview of Operating Results, Etc.

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

In the fiscal year under review, the global economy continued its steady recovery backed by an increase in employment in the U.S. The European economies recovered moderately, and China and other Asian emerging countries also maintained a trend of economic improvement. In Japan, the economy continued its modest revival thanks to improved employment and corporate earnings on the back of the government's economic policies.

The electronics industry, in which UMC Electronics Co., Ltd. (hereinafter the "Company") and its consolidated subsidiaries (hereinafter the "UMC Electronics Group") operate, maintained a generally high level of orders received, primarily thanks to an increase in automotive electrification-related products due to the growth of the electrification of automobiles, rising demand for factory automation and the globally expanding semiconductor market.

In this business environment, the UMC Electronics Group's transaction volumes for automotive equipment, industrial equipment, and office automation equipment have been increasing, and the Group is in the process of establishing its Mexican factory and its factory in Saga Prefecture and commencing operations to achieve further business expansion. Negotiations and preparations for mass production of critical safety parts for various vehicle models initiated by the Group at an early stage in response to the global shift to electric vehicles in the automotive equipment industry are progressing as planned under the leadership of the Company's business base in China. Additionally, the UMC Electronics Group is aiming to establish smart factories by combining low-cost automation (LCA), otherwise known as facilities for automating internal development and reducing labor, which have been installed progressively in all factories, and a backbone system. The Group plans to improve its data analysis capabilities using AI and big data and the quality of design and manufacturing in initiatives such as design for manufacturability (DFM).
The average exchange rate for the fiscal year under review was 110.86 yen to 1 US dollar (108.42 yen to 1 US dollar for the previous fiscal year), about 2% lower than the previous fiscal year.

As a result, consolidated net sales for the fiscal year under review came to 125,676 million yen, up 12.3% from the previous fiscal year. In terms of profit, operating income was 2,543 million yen, down 11.5% year on year, partly due to expenses incurred for preparations ahead of multiple automotive equipment projects that are scheduled to start in and after the next fiscal year, the establishment of the Mexican factory and other investments, under the recognition that this fiscal year is the period for building a base for future growth. Ordinary income amounted to 2,075 million yen, down 3.9% year on year. Profit attributable to owners of parent stood at 1,518 million yen, up 16.2%.

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 an overwhelming majority of the Group's operations.
Consolidated net sales for the EMS business by product category 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, climbed to 125,266 million yen, up 12.4% from the previous fiscal year. The results by product category are outlined below.

(Automotive equipment)
Consolidated net sales of automotive equipment increased to 52,538 million yen, up 19.5% from the previous fiscal year, which was attributable to growth in the products handled as a result of progress in vehicle electrification and strong sales of critical safety parts such as power control products.

(Industrial equipment)
Consolidated net sales of industrial equipment rose to 31,002 million yen, up 15.2% from the previous fiscal year, reflecting growing demand to save labor in the Chinese market, facilitating the strong performance of the Group's client manufacturers, and a steady increase in transactions with local Chinese manufacturers.

(Office automation equipment)
Consolidated net sales rose to 25,726 million yen, up 19.7% from the previous fiscal year, as a result of growth in the Group's shares in major office automation equipment manufacturers in addition to the recovery of the printer market.

(Consumer equipment)
Consolidated net sales of consumer equipment decreased to 6,889 million yen, down 17.6% year on year, under the adverse effects of intensifying competition in the market of Japanese brand manufacturers, which are among the key customers of the Group.

(Information equipment)
Consolidated net sales of information equipment dropped to 4,534 million yen, down 34.2% year on year, reflecting the completion of smartphone projects.

(Other EMS)
Consolidated net sales of other EMS operations, which consist largely of sales of amusement equipment, rose to 4,575 million yen, up 20.5% year on year.

(ii) Other business
Consolidated net sales of the Other business came to 409 million yen, down 18.0% year on year, as a result of excluding Cybercore Co., Ltd. from the scope of consolidated subsidiaries, despite stable sales in temporary staffing operations.

(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 65,923 million yen, up 8.7% from the end of the previous fiscal year. This increase is mainly attributable to growth in construction in progress due to the construction of a factory in Mexico and a rise in machinery and equipment.
Liabilities at the end of the fiscal year under review totaled 47,715 million yen, up 8.5% from the end of the previous fiscal year. The growth is mainly attributable to increases in accounts payable-trade, short-term loans payable and long-term loans payable.
Net assets at the end of the fiscal year under review came to 18,208 million yen, up 9.4% from the end of the previous fiscal year. The rise is mainly attributable to an increase in retained earnings.

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

Consolidated cash and cash equivalents amounted to 5,693 million yen at the end of the fiscal year under review, down 41.2% from the end of the previous fiscal year.

[Cash flows from operating activities]
Net cash used by operating activities came to 132 million yen in the fiscal year under review (compared with net cash provided by such activities of 2,057 million yen posted in the previous fiscal year). The cash outflow resulted mainly from increases in notes and accounts receivable-trade and inventories.

[Cash flows from investing activities]
Net cash used in investing activities amounted to 5,881 million yen in the fiscal year under review (compared with net cash used in such activities of 4,236 million yen posted in the previous fiscal year). The cash outflow resulted mainly from investment in the construction of a factory in Mexico and machines and equipment made by the respective Group companies.

[Cash flows from financing activities]
Net cash provided in financing activities totaled 2,073 million yen in the fiscal year under review (compared with net cash used in such activities of 764 million yen posted in the previous fiscal year). The cash inflow resulted mainly from increases in short-term loans payable and long-term loans payable.

Reference data: changes in indexes related to cash flows

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Capital adequacy ratio (%)	28.1	27.4	27.5
Capital adequacy ratio based on market value (%)	28.6	41.7	64.9
Ratio of interest-bearing liabilities to cash flows (years)	6.9	10.3	–
Interest coverage ratio (times)	8.1	5.6	–

Note: Calculation methods for respective indexes

- Capital adequacy ratio: shareholders’ equity / total assets
- Capital adequacy ratio based on market value: total market capitalization / total assets
- Ratio of interest-bearing liabilities to cash flows: 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, the burden of prior investment in business for the future, such as new automotive equipment projects for PHV and EV and the launch of the factory in Mexico, is expected as in the previous fiscal year, while the transaction volumes of automotive equipment, industrial equipment and office automation equipment are expected to grow. As a result, in the fiscal year ending March 31, 2019, the UMC Electronics Group forecasts that it will achieve consolidated net sales of 141,914 million yen (up 12.9% from the fiscal year ended March 31, 2018), consolidated operating income of 2,678 million yen (up 5.3% year on year), consolidated ordinary income of 2,295 million yen (up 10.6% year on year) and consolidated profit attributable to owners of parent of 1,799 million yen (up 18.6% year on year), based on the assumed exchange rate of 105 yen per U.S. dollar.

The Company formulated the new medium-term management plan, whose last fiscal year is the fiscal year 2020. This medium-term management plan includes a forecast of the substantial contribution of the collaboration in the strengthening of manufacturing with Hitachi, Ltd. announced on April 3, 2018 and the new projects for automotive PHV and EV to the business results toward dramatic growth.
As for the future business environment surrounding the Company, the economy is expected to remain on a moderate recovery track; however, attention needs to be paid to the trend of protectionism in international trade policy. We will implement the strategy of business bases mainly with an eye toward the markets in Asia and America.

(5) Material Events Relating to Going Concern Assumptions, Etc.

No corresponding item exists.

2. Basic Idea on the Selection of Accounting Standards

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.