UMC Electronics Co., Ltd.

Fiscal 2018 First Half Performance in Focus (April 1, 2018 – September 30, 2018)

1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

In the first half of the fiscal year under review, the global economy saw the U.S. economy continue to recover against the backdrop of the favorable employment environment. However, the manufacturing activity index declined in China due to the sense of uncertainty regarding the future that emerged as a result of the U.S.- China trade conflict. In Europe and Japan, the economy continued a modest revival.

The electronics industry, in which UMC Electronics Co., Ltd. and its consolidated subsidiaries (hereinafter the "UMC Electronics Group") operate, maintained a generally high level of orders, primarily thanks to an increase in automotive electrification-related products due to growth of the electrification of automobiles and the expansion of the semiconductor market that has continued globally. In addition, the supply/demand balance remained tight for electronic parts.

In this environment, the UMC Electronics Group has been working on important measures of (1) collaboration with Hitachi, Ltd., (2) immediate response to customer needs, (3) response to the two major consumption areas: local production for local consumption, and (4) improvement of manufacturing capability, as it announced in May this year in its medium-term management plan. In July this year, the Group took an 85.1% stake in the former Hitachi Information & Telecommunication Manufacturing, Ltd., a wholly owned subsidiary of Hitachi, Ltd., and the company made a fresh start as UMC H Electronics Co., Ltd. under a new system. With UMC H Electronics Co., Ltd. as a new member, the Group is now capable of manufacturing large finished products, and is ready to manufacture a wider range of products.

In addition, the launch of the Mexican factory on which emphasis has been placed by positioning it as the foundation for rapid growth in and after FY2019, and business negotiations for critical safety parts for various vehicles and preparations for the mass production that are associated with the shift to electric vehicles in the automotive area worldwide progressed steadily in parallel. 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).

As a result, consolidated net sales for the first half of the fiscal year under review came to 68,442 million yen, an increase of 9.8% from the same period of the previous year. With respect to profit and loss, mainly due to the input of costs for advance preparations for multiple automobile projects planned to be launched one by one in the future and for the launch of the Mexican Factory, operating income was 1,052 million yen, a decrease of 17.8% year on year. Ordinary income was 499 million yen, down 54.9% year on year, mainly reflecting the posting of an exchange valuation loss in the first quarter. Profit attributable to owners of parent was 489 million yen, a decrease of 34.6% from the same period of the previous year.

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 68,154 million yen, up 9.8% from the same period in the previous year. The results by product category are outlined below.

(Automotive equipment)

Consolidated net sales of automotive equipment increased 18.0% year on year, to 29,660 million yen, which was attributable to strong sales of critical safety parts such as power control products, in addition to the expansion of exterior products that resulted from the shift to LED lights.

(Industrial equipment)

Consolidated net sales of industrial equipment rose 9.8% year on year, to 17,708 million yen, thanks to orders received for semiconductor inspection equipment as finished products, in addition to the contribution of sales of servers, storage, and network equipment from UMC H Electronics Co., Ltd., the new consolidated subsidiary.

(Office automation equipment)

Consolidated net sales of office automation equipment rose to 14,993 million yen, up 18.8% year on year, as a result of the excellent state of the printer market.

(Consumer equipment)

Consolidated net sales of consumer equipment decreased 53.4% year on year, to 1,879 million yen, due to the end of some products of major customers.

(Information equipment)

Consolidated net sales of information equipment dropped 4.5% year on year, to 2,273 million yen, with optical pickup products, for which relatively stable production is expected, having become a major product for sales.

(Other EMS)

Consolidated net sales of other EMS operations declined 11.6% year on year, to 1,639 million yen, due to a decline in sales of amusement equipment.

(ii) Other business

Consolidated net sales of the Other business came to 288 million yen, increased 46.9% year on year, due to strong sales in temporary staffing operations.

(2) Explanation of Financial Position

(i) Status of assets, liabilities, and net assets

Total assets at the end of the first half of the fiscal year under review amounted to 83,352 million yen, up 26.5% from the end of the previous fiscal year. This increase is mainly attributable to an increase in cash and deposits due to a capital increase by public offering and the disposal of treasury shares and an increase in property, plant and equipment attributable to an increase in raw materials and land acquisition.

Liabilities at the end of the first half of the fiscal year under review totaled 56,904 million yen, up 19.3% from the end of the previous fiscal year. This increase is mainly attributable to increases in accounts payable and short-term loans payable.

Net assets at the end of the first quarter of the fiscal year under review came to 26,447 million yen, up 45.3% from the end of the previous fiscal year. This increase is mainly attributable to an increase in capital and capital surplus due to a capital increase by public offering and the disposal of treasury shares.

(3) Explanation of Forward-looking Information Including Forecast of Consolidated Results

No revisions have been made to the forecast for consolidated results announced on May 11, 2018, in the Summary of Financial Results for the Fiscal Year Ended March 31, 2018.

(Millions of yen)

		FY2017/H1	FY2018/H1
EMS business			
Automotive equipment		25,129	29,660
	Share	40.3%	43.3%
	YoY	32.0%	18.0%
Industrial equipment		16,130	17,708
	Share	25.9%	25.9%
	YoY	27.2%	9.8%
Office automation equipment		12,616	14,993
	Share	20.2%	21.9%
	YoY	24.8%	18.8%
Consumer equipment		4,037	1,879
	Share	6.5%	2.7%
	YoY	-5.3%	-53.4%
Information equipment		2,379	2,273
	Share	3.8%	3.3%
	YoY	-38.6%	-4.5%
Other EMS		1,851	1,639
	Share	3.0%	2.4%
	YoY	-9.1%	-11.5%
Other business		196	288
	Share	0.3%	0.4%
	YoY	-19.0%	46.9%
Total		62,341	68,442
	YoY	19.3%	9.8%