



UMC Electronics Co., Ltd.

## **Fiscal 2019 First half Performance in Focus (April 1, 2019 – September 30, 2019)**

### 1. Overview of Quarterly Results

#### (1) Overview of Operating Results

In the first half of the fiscal year ending March 31, 2020 (Fiscal 2019), there was a suspicion that improper accounting was being conducted at the consolidated subsidiary in China. UMC Electronics Co., Ltd. (hereinafter "UMC Electronics") established an external investigation committee consisting of only independent third party on August 7, 2019, to thoroughly investigate the facts, causes, and to receive recommendations for recurrence prevention.

UMC Electronics received an investigation report on October 28, 2019 and submitted revised securities reports from the fiscal 2013 to the fiscal 2019 and correction reports of quarterly reports to Kanto Local Finance Bureau on the same day. UMC Electronics is taking this issue very seriously and will sincerely implement measures to prevent recurrence based on the recommendations from the committee.

The economic environment during the first half of Fiscal 2019 (from April 1, 2019 to September 30, 2019) was affected by the US-China trade friction problem. The world economy, including China, continued to slow down. Japan is also affected by the global economic slowdown, and exportation and production market tended to waken. In the electronics industry to which UMC Electronics and its consolidated subsidiaries (hereinafter collectively referred to as "UMC Group") belong CASE (Connected, Autonomous, Shared & Services, Electric), the trend of electrification of automotive equipment, kept progressing. However, the number of automobile sales decreased comparing to last year in China, which is the largest market, and in emerging countries such as India due to sluggish sales.

In this business environment, UMC Group flexibly responds to our customers' growing needs for optimal production due to US-China trade friction by providing the same quality of manufacturing services globally.

Net sales for the fiscal year under review were 71,500 million yen (up 5.8% year from the previous year). In terms of profit and loss, operating loss was 570 million yen, a decrease of 506 million yen compared to the previous fiscal year. Ordinary loss was 1,244 million yen, a decrease of 287 million yen compared to the previous year.

As for extraordinary gain and loss items, UMC Group booked an extraordinary income of 1,164 million yen due to profit of retirement benefits system transition, an impairment loss on fixed assets of 541 million yen, an extraordinary loss of 848 million yen for retirement benefit expenses related to retirement benefit

system transition, and an extraordinary loss of 1,461 million yen for expenses of correcting past financial results.

UMC Group operates the EMS business and other businesses, but the segment information on other businesses will not be provided in this document because majority of UMC Group's operations is the EMS business. Consolidated net sales of the EMS business and consolidated net sales of other businesses are as follows. Consolidated net sales described below are figures after elimination of inter-company transactions.

(i) EMS business

Consolidated net sales for the EMS business, the core business of UMC Group, increased to 71,182 million yen (up 5.8% from the previous fiscal year).

An overview of business results by product category is as follows.

(Automotive equipment)

Consolidated net sales increased to 32,101 million yen (up 9.7% from the previous year) due to the expansion of exterior products associated with LED lighting as well as strong sales of critical safety parts such as power control products.

(Industrial equipment)

Although FA equipment-related sales slowed down mainly in China, consolidated net sales increased to 18,609 million yen (up 6.4% from the previous fiscal year) due to the contribution of server, storage, and network equipment sales of UMC H Electronics Co., Ltd., which became a new consolidated subsidiary of UMC Electronics.

(Office automation equipment)

Consolidated net sales decreased to 14,346 million yen (down 3.2% from the previous fiscal year) due to declining demand in the printer market.

(Consumer equipment)

Consolidated net sales were 1,382 million yen (down 26.4% from the previous fiscal year) due to intensified competition in the market of the major customers

(Information equipment)

Optical pickups are the main products, and consolidated net sales decreased to 1,695 million yen (down 25.4% from the previous fiscal year).

(Others)

The main product is amusement equipment and consolidated net sales increased to 3,047 million yen (up 92.2% from the previous fiscal year).

(ii) Other business

The temporary staffing business was strong, and net sales were 317 million yen (up 10.4% from the previous year).

(2) Overview of Financial Position of Fiscal 2019

Status of assets, liabilities and net assets

Total assets at the end of the fiscal year under review were 78,066 million yen (up 5.1% from the previous fiscal year). This was mainly due to an increase in accounts receivable and accounts receivable.

Liabilities were 65,525 million yen (up 15.1% from the previous consolidated fiscal year). This was mainly due to an increase in accounts payable and short-term loans.

Net assets dropped to 12,541 million yen (down 27.9% from the previous fiscal year). This is mainly due to a decrease in retained earnings.

(3) Overview of Cash Flows

Consolidated cash and cash equivalents (hereinafter referred to as “capital”) at the end of the fiscal under review increased to 7,036 million yen, up 614 million yen from the previous consolidated fiscal year.

The status of each cash flow for the first half of Fiscal 2019 is as follows.

(Cash flows from operating activities)

Net cash used in operating activities resulted in outflow of 1,088 million yen. This is mainly due to a net loss before taxes.

(Cash flows from investing activities)

Net cash used in investing activities was 1,594 million yen. This is mainly due to the acquisition of property, plant and equipment.

(Cash flows from financing activities)

Net cash provided by financing activities was 3,647 million yen. This is mainly due to an increase in short-term loans.

(4) Forecasts

As announced in “Notice regarding Extraordinary Loss and Revision of Consolidated Financial Forecast and Dividend Forecast” on October 28, 2019, UMC Group is restructuring the management system and re-developing business plans based on the recommendations of the report on the inappropriate accounting issue.

Under these circumstances, there are many uncertain factors to estimate the impact of the issue to the business performance. The consolidated business forecasts will be disclosed after carefully reviewing all factors.

(5) Notes on Going Concern Assumptions

Due to the inappropriate accounting issue in the past years, credit of financial institutions towards UMC Group has changed. On the other hand, UMC Group needs to rely on indirect financing for funding due to a decline in stock prices. Under the circumstances, there are significant doubts about going concern assumptions.

In order to resolve this situation, UMC Group is working on improving the balance of liquidity funds by reducing inventory and by liquidating holding receivables. In addition, UMC Group is working on maintaining good relationships with financial institutions by reporting business results and financial condition of UMC Group and gaining understanding for financing and to stabilize cash flow. UMC Group is also discussing additional loans. At the same time, UMC Group is in the process of discussing diversification of financing methods with some financial institutions. However, as these measures are still under implementation and no final agreement has been reached, there is currently significant uncertainty regarding going concern assumptions.

The quarterly consolidated financial statement is prepared on the assumption of going concern, and the impact of significant uncertainties regarding the going concern assumption is not reflected in the quarterly consolidated financial statement.

## Net Sales by Product Category

(Millions of yen)

	FY2018/2Q	FY2019/2Q
<b>EMS business</b>		
Automotive equipment	29,258	32,101
Share	43.3%	44.9%
YoY	16.4%	9.7%
Industrial equipment	17,482	18,609
Share	25.9%	26.0%
YoY	8.3%	6.4%
Office automation equipment	14,817	14,346
Share	21.9%	20.1%
YoY	17.5%	-3.2%
Consumer equipment	1,877	1,382
Share	2.8%	1.9%
YoY	-53.5%	-26.4%
Information equipment	2,273	1,695
Share	3.4%	2.4%
YoY	-4.5%	-25.4%
Other EMS	1,585	3,047
Share	2.3%	4.3%
YoY	-13.8%	92.2%
<b>Other business</b>	288	317
Share	0.4%	0.4%
YoY	46.9%	10.4%
<b>Total</b>	67,583	71,500
YoY	8.4%	5.8%