

ADVANEX INC.

Flash Report (Consolidated Basis)



Results for FY2017 Second quarter(six months ended September 30, 2016)

November 11, 2016

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 Code number: 5998
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 Filing date of quarterly securities report:
 Supplementary explanation material for quarterly financial results
 Holding of presentation meeting for quarterly financial results

Stock listings: Tokyo Stock Exchange
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 November 11, 2016
 Yes
 Yes

1. Performance (April 1, 2016 through September 30, 2016) (Figures less than ¥1 million have been omitted.)

(1) Consolidated operating results (For the six months ended September 30.).

Percentages indicate year-on-year increase (decrease)

	Net sales		Operating income		Ordinary Income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2016	8,772	(11.6)	84	(76.9)	74	(78.8)	(4)	-
Six months ended September 30, 2015	9,924	(30.4)	366	(27.0)	353	(18.6)	237	25.5

[Note] Comprehensive income: Six months ended September 30, 2016 (943) million yen
 Six months ended September 30, 2015 84 million yen

	Net income per share	Net income per share after dilution
	Yen	Yen
Six months ended September 30, 2016	(1.05)	-
Six months ended September 30, 2015	57.88	57.49

(Note) Advanex Inc. conducted consolidation of common shares (consolidate 10 shares into 1 share) effective on October 1, 2015. Net income per share and Net income per share after dilution are calculated under the assumption that this share consolidation was conducted at the beginning of the previous fiscal year.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net Assets per share
	Millions of yen	Millions of yen	%	Yen
As of September 30, 2016	16,285	5,494	33.4	1,334.34
As of March 31, 2016	17,024	6,578	38.4	1,600.38

[Reference] Total shareholder's equity: ¥ 5,447 million yen at September 30, 2016 ¥ 6,536 million yen at March 31, 2016

2. Dividends

	Dividends per share				
Record date	First quarter -end dividends	Second quarter -end dividends	Third quarter -end dividends	Year-end dividends	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2016	--	--	--	35.00	35.00
Year ended March 31, 2017	--	--	--		
Year ended March 31, 2017 (forecast)			--	30.00	30.00

[Note] Revisions to the latest forecast of cash dividends: No

3. Forecast of consolidated results for FY2017 (April 1, 2016 through March 31, 2017)

Percentages indicate year-on-year increase (decrease)

	Net sales		Operating income		Ordinary income		Net income (loss)		Net income (loss) per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Year ended March 31, 2017	17,700	(7.2)	450	(32.7)	400	(40.5)	220	(62.5)	53.88

[Note] Revisions to the latest forecasts of consolidated results: No

4. Others

- (1) Significant changes in subsidiaries during the subject fiscal year: No
Additions: 0 Deletions: 0
- (2) Application of simplified accounting and specific accounting: No
- (3) Changes in accounting principles, procedures, presentations, etc.
a. Changes associated with revision of accounting standards, etc: No
b. Changes other than a.: No
c. Changes in accounting estimates: No
d. Restatement: No
- (4) Number of shares outstanding (Common stock)
a. Number of shares outstanding at end of period (Including treasury stock)
4,153,370 shares at September 30, 2016
4,153,370 shares at March 31, 2016
b. Number of shares of treasury stock at end of period
70,874 shares at September 30, 2016
69,313 shares at March 31, 2016
c. Average number of shares issued and outstanding in each period:
4,083,382 shares at September 30, 2016
4,102,164 shares at September 30, 2015

[Notes]

[Notes]

1. Explanation for related to implementation of the quarterly review procedures
When disclosing this Brief Report of Financial Results, the review procedures for quarterly financial statements under the Financial Instruments and Exchange Law have not been brought to completion.
2. Explanation for appropriate use of financial forecasts and other special remarks
The above-mentioned forecasts are based on the information available as of the date when this information is disclosed, as well as on the assumptions as of the disclosing date of this information related with unpredictable parameters that are probable to affect our future business performances. Our actual performance is likely to differ greatly from these estimates depending on various factors in the future.

(Attachment)

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1 . Qualitative Information on Financial Results For This Quarter

(1) Explanation of Business Results

During the second quarter (from April 1 to September 30, 2016) of the fiscal year under review, the US economy continued to expand reflecting some improvements in the employment environment and strong consumer spending. In Europe, however, more signs of economic uncertainty were observed because of the Brexit impact in spite of rather favorable European economic situation. The Chinese economy slowed down after overinvestment while the South East Asian economies stayed strong despite the fact that they were partially affected from the slowdown of the Chinese economy. In Japan, the economic situation stayed at a standstill due to the factors such as flat growth in exports reflecting the stronger yen. In such situation, the automotive industry, which is closely related to our business, generally showed solid results mainly in Europe.

As a result, the consolidated net sales of Advanex group for the first half of the fiscal year under review decreased 11.6% year on year to ¥8,772 million and the operating income decreased 76.9% year on year to ¥84 million. The operating income decreased 78.8% year on year to ¥74 million and the net loss attributable to owners of the parent for the first half amounted to ¥4 million.

Results for each operating segment are as follows.

[Japan]

Sales to the automotive market went robust, however, sales to OA equipment market decreased. In addition, an increase in fixed costs was recorded due to the launch of Saitama factory. As a result, the net sale of this segment decreased 4.8% year on year to ¥3,747 million and the segment loss amounted to ¥296 million.

[Americas]

Sales to the automotive and housing related markets decreased and there was an impact from the stronger yen. Also, the amount of fixed costs increased due to the launch of the second factory in Mexico. As a result, the net sale in this segment decreased 15.6% year on year to ¥925 million and the segment loss amounted to ¥53 million.

[Europe]

Sales to the aviation market went strong, however, sales to the medical equipment market declined. In addition to this, the stronger yen impacted the performance. As a result, the net sales in this segment decreased 29.9% year on year to ¥875 million and the segment income dropped 52.6% year on year to ¥70 million.

[Asia]

While the net sales of this segment decreased 11.5% year on year to ¥3,223 million due to the stronger yen, the segment income increased 10.4% year on year to ¥356 million, mainly thanks to a significant earnings growth in Thailand and successful contribution from the measures taken to improve the profitability in China.

(2) Explanation of Financial Position

① The Status of assets, liabilities, and net assets

Total assets at the end of the second quarter amounted to ¥16,285 million, decreasing ¥738 million compared with the end of previous fiscal year (March 31, 2016). Major reasons are as follows.

In assets section, the total amount of current assets decreased ¥378 million to ¥9,579 million. This change is mainly owing to a ¥219 million decrease in cash and time deposits and a ¥69 million decrease in inventory (due to declined net sales).

The total amount of fixed assets decreased ¥360 million to ¥6,705 million. This change reflects a ¥296 million decrease in tangible fixed assets and a ¥25 million decrease in intangible fixed assets and

others decreased ¥38 million.

On the liabilities side, the total liabilities amounted to ¥10,791 million, increasing ¥345 million from the end of previous fiscal year. This change is primarily due to a ¥270 million increase in the borrowings.

In the net assets, the total net assets amounted to ¥5,494 million, decreasing ¥1,083 million from the end of previous fiscal year. This change is mainly due to a ¥4 million net loss attributable to owners of the parent recorded in the second quarter of fiscal year under review and ¥141 million payment of dividend, a ¥954 million decrease in foreign exchange adjustment which was affected by the stronger yen.

②The status of Cash flows

The amount of cash and cash equivalent as of the end of second quarter in the current fiscal year amounted to ¥2,361 million, a ¥308 million decrease compared with the status of the previous fiscal year end. The status of various cash flows and the main factors behind changes are explained below.

1. Cash flow from operating activities

Net cash provided by operating activities increased ¥220 million. (¥761 million increase in the same period of previous fiscal year) This change is primarily due to a ¥76 million recorded net income before income taxes and a ¥378 million reserved from depreciation and amortization.

2. Cash flow from investing activities

Fund decreased ¥703 million by investing activities. (¥931 million decrease during the same period of previous fiscal year) The primary reason for this change is ¥549 million capital investments in Advanex Inc. and the group companies, and time deposit of ¥174 million.

3. Cash flow from financing activities

As a result of financing activities, the fund increased ¥503 million. (¥27 million decrease during the same period of previous fiscal year) The main inflow is borrowings of ¥644 million and main outflow is a ¥141 million dividend payments.

(3) Explanation of Consolidated Business Forecast and other Forecasts

Regarding the prospect of the consolidated business forecasts for the fiscal year ending March 31, 2017, the company has no changes from the forecasts released on Aug 12, 2016.

2. Other summary information

(1) Change to major subsidiaries during the fiscal period under review
None

(2) Adoption of special accounting treatment used in preparation of the quarterly consolidated financial statements
None

3. QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

(1) QUARTERLY CONSOLIDATED BALANCE SHEETS

(Amount: thousands of yen)

	FY2017 Second quarter (As of September 30,2016)	FY2016 (As of March 31,2016)
ASSETS		
Current assets:		
Cash and time deposits	3,245,842	3,465,434
Trade notes and accounts receivable	4,098,336	4,096,757
Finished goods	928,324	1,045,537
Work in process	509,452	443,607
Raw materials and stored items	522,100	540,485
Deferred income tax	1,466	1,585
Other current assets	290,289	383,912
Allowance for doubtful accounts	(16,127)	(19,577)
Total current assets	9,579,683	9,957,742
Noncurrent assets:		
Tangible noncurrent assets		
Buildings and structures	1,937,613	2,085,755
Machinery and equipment	2,144,496	2,218,894
Land	940,158	982,722
Others	487,473	518,968
Total tangible noncurrent assets	5,509,742	5,806,340
Intangible noncurrent assets	240,190	265,587
Investments and other assets	956,058	994,598
Total noncurrent assets	6,705,990	7,065,526
Total assets	16,285,674	17,024,268

(Amount: thousands of yen)

	FY2017 second quarter (As of September 31,2016)	FY2016 (As of March 31,2016)
LIABILITIES		
Current liabilities:		
Trade notes and accounts payable	2,306,649	2,421,123
Short-term borrowings	856,301	702,817
Long-term borrowings due within one year	1,691,815	1,477,247
Accrued income taxes	103,824	78,892
Allowance for bonus	153,441	27,8361
Provision for loss on disaster	—	2,000
Other current liabilities	891,993	1,042,680
Total current liabilities	6,004,026	5,852,597
Noncurrent liabilities		
Long-term borrowings	3,133,700	2,910,258
Deferred tax liabilities	158,969	190,416
Provision for environmental measures	3,000	3,000
Liabilities for retirement benefits	1,329,060	1,325,440
Asset retirement obligations	39,023	39,138
Other noncurrent liabilities	123,637	125,232
Total noncurrent liabilities	4,787,392	4,593,485
Total liabilities	10,791,418	10,446,083
NET ASSETS		
Shareholder's equity		
Common stock	1,000,000	1,000,000
Capital surplus	256,717	256,717
Retained earnings	5,555,010	5,702,235
Treasury stock	(121,009)	(119,180)
Total shareholder' equity	6,690,718	6,839,772
Accumulated other comprehensive income		
Valuation gain (loss) on other securities	69,393	105,407
Foreign exchange adjustment	(1,098,223)	(144,195)
cumulative amount for retirement benefits	(214,464)	(264,953)
Total accumulated other comprehensive income	(1,243,294)	(303,741)
Subscription rights to shares	46,832	42,154
Total net assets	5,494,255	6,578,185
Total liabilities and net assets	16,285,674	17,024,268

(2) QUARTERLY CONSOLIDATED STATEMENTS OF INCOME

(Amount: thousands of yen)

	FY2017 second quarter (April 1, 2016 through September 30, 2016)	FY2016 second quarter (April 1, 2015 through September 30, 2015)
NET sales	8,772,448	9,924,554
Cost of sales	6,585,007	7,269,986
Gross profit	2,187,441	2,654,568
Selling, general and administrative expenses	2,102,777	2,287,714
Operating income	84,663	366,854
Non-operating revenues		
Interest income	10,558	8,053
Dividends income	4,095	2,859
Rent income	37,752	42,639
Foreign exchange gains	—	—
Others	14,865	13,170
Total non-operating revenues	67,271	66,722
Non-operating expenses		
Interest expenses	23,800	27,274
Share of loss of entities accounted for using equity method	—	—
Foreign exchange losses	39,073	31,779
Others	14,153	21,194
Total non-operating expenses	77,027	80,248
Ordinary income(loss)	74,907	353,327
Extraordinary gain		
Gain on sales of noncurrent assets	1,854	216
Gain on sales of shares of subsidiaries and associates	—	—
Total extraordinary gain	1,854	216
Extraordinary loss		
Loss on sales of noncurrent assets	371	372
Loss on disposal of noncurrent assets	381	218
Loss on sales of investment securities	—	8
Provision for loss on liquidation of subsidiaries and associated	—	7,464
Restructuring loss	—	—
Total extraordinary loss	752	8,063
Net Income (or loss) before income taxes	76,009	345,479
Corporate, inhabitant and enterprise taxes	85,336	100,611
Corporate tax adjustments	(5,045)	7,425
Total income taxes	80,291	108,036
Net income(loss)	(4,282)	237,442
Net income (loss) Attributable to Non-controlling interests	—	—
Net income (loss) Attributable to Owners of the Parent	(4,282)	237,442

QUARTERLY CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amount: thousands of yen)

	FY2017 second quarter (April 1, 2016 through September 30, 2016)	FY2016 second quarter (April 1, 2015 through September 30, 2015)
Income (or loss) before minority interests	(4,282)	237,442
Other comprehensive income		
Valuation gain(loss) on other securities	(36,014)	(21,653)
Foreign currency translation adjustment	(954,027)	(149,275)
Remeasurements of defined benefit plans	50,488	18,230
Share of other comprehensive income of entities accounted for using equity method	—	
Total other comprehensive income	(939,552)	(152,698)
Comprehensive income	(943,835)	84,744
Comprehensive income attributable to owners of the parent	(943,835)	84,744
Comprehensive income attributable to non- controlling interests	—	

(3) Consolidated Statements of Cash Flows

(Thousands of yen)

	FY2017 second quarter (April 1, 2016 through September 30, 2016)	FY2016 second quarter (April 1, 2015 through September 30, 2015)
Cash flows from operating activities		
Gain (Loss) before income taxes and minority interests	76,009	345,479
Depreciation and amortization	378,529	419,075
Impairment loss	(86)	(968)
Increase (decrease) in allowance for doubtful accounts	32,901	95,094
Increase (decrease) in allowance for bonuses	—	—
Increase (decrease) in retirement benefits	57,959	(36,652)
Interest and dividends receivable		
Interest payable	(14,653)	(10,912)
(Gain) loss on differences of foreign exchange	23,800	27,274
(Gain) loss on sale of fixed assets	17,251	311
(Gain) loss on disposal of fixed assets	(1,483)	156
Loss (gain) on valuation of investment securities	381	218
Insurance income	—	
Loss (gain) on sales and valuation of investment securities		8
Gain on negative goodwill	(250,145)	18,536
Decrease (increase) in inventories	(113,337)	43,704
Increase (decrease) in notes and accounts payable	(1,539)	123,595
Others	41,663	(211,651)
Subtotal	247,249	813,269
Proceeds from interest and dividend receivable	15,206	11,056
Payment of interests	(19,302)	(28,195)
Payment of income taxes	(63,162)	(77,784)
Others	40,431	43,581
Net cash provided by operating activities	220,422	761,927

	FY2017 second quarter (April 1, 2016 through September 30, 2016)	FY2016 second quarter (April 1, 2015 through September 30, 2015)
Cash flows from investing activities		
Payments on purchase of tangible fixed assets	(543,487)	(797,724)
Proceeds from sales of tangible fixed assets	28,747	1,517
Payments on purchase of intangible fixed assets	(6,034)	(74,288)
Proceeds from sales of intangible fixed assets	2,413	267
Payments on purchase of investment securities	(10,127)	(48,207)
Payments into time deposits	(174,880)	(119,620)
Proceeds from sales of stocks of subsidiaries and affiliates	—	
Others	(558)	106,537
Net cash used in investing activities	(703,927)	(931,518)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	189,646	(23,435)
Proceeds from long-term borrowings	1,250,000	800,000
Repayments on long-term borrowings	(795,351)	(503,802)
Decrease (increase) in treasury stock	(1,829)	(99,955)
Cash dividends paid	(141,923)	(122,390)
Others	2,555	(22,463)
Net cash used in financing activities	503,097	27,952
Effect of exchange rate changes on cash and cash equivalents	(328,212)	(55,481)
Net increase (decrease) in cash and cash equivalents	(308,619)	(197,121)
Cash and cash equivalents at the beginning of quarter	2,669,998	3,407,654
Increase in cash and cash equivalents from newly consolidated subsidiary	—	
Cash and cash equivalents at the end of quarter	2,361,378	3,210,533

(4) Notes Concerning Quarterly Consolidated Financial Statements
 (Notes on Going Concern Assumptions)
 Not applicable

(Notes Concerning Significant Changes in the Amount of Shareholders' Equity)
 Not applicable

Segment Information etc.
【Segment Information】

I FY2017 second quarter (April 1, 2016 through September 30, 2016)

1, Information related to sales and income or loss amounts by reporting segments

(Amount: thousands of yen)

	Japan	Americas	Europe	Asia	Total
Net sales					
(1) Net sales to third parties	3,747,208	925,478	875,967	3,223,793	8,772,448
(2) Intra-group Net sales and transfers	187,779	79	28,838	90,907	307,605
Total sales	3,934,988	925,558	904,806	3,314,701	9,080,053
Operating income (loss)	(296,532)	(53,904)	70,154	356,513	76,231

2, Reconciliation of Reported Consolidated Quarterly Net Sales and Operating Income with Operating Income or Loss of Reporting Segments

Reconciliation of Operating Income	Amount
Total of Reporting Segments	76,231
Elimination of inter-segment transactions	8,432
Consolidated Quarterly Operating Income	84,663

3, Information related to impairment loss of fixed assets or goodwill, etc. by reporting segment
 Not applicable

II FY2016 second quarter (April 1, 2015 through September 30, 2015)

1, Information related to sales and income or loss amounts by reporting segments

(Amount: thousands of yen)

	Japan	Americas	Europe	Asia	Total
Net sales					
(1) Net sales to third parties	3,939,198	1,097,030	1,249,441	3,641,884	9,924,554
(2) Intra-group Net sales and transfers	243,322	—	22,019	90,700	356,041
Total sales	4,179,521	1,097,030	1,271,460	3,732,584	10,280,596
Operating income (loss)	(145,545)	52,048	147,852	322,785	377,141

2, Reconciliation of Reported Consolidated Quarterly Net Sales and Operating Income with Operating Income or Loss of Reporting Segments

Reconciliation of Operating Income	Amount
Total of Reporting Segments	377,141
Elimination of inter-segment transactions	(10,287)
Consolidated Quarterly Operating Income	366,854

3, Information related to impairment loss of fixed assets or goodwill, etc. by reporting segment

Not applicable