

Translation

MARUBUN CORPORATION

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January 31, 2017

Summary of Consolidated Financial Results for the Nine Months Ended December 31, 2016 <under Japanese GAAP>

1. Consolidated Financial Results for the Nine Months Ended December 31, 2016 (April 1, 2016 - December 31, 2016)

(1) Consolidated Operating Results

	Net Sales		Operating Income		Ordinary Income		Profit Attributable to Owners of Parent	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
For the Nine months ended December 31, 2016	194,353	(11.3)	797	(63.2)	105	(95.4)	(214)	-
December 31, 2015	219,117	11.7	2,168	(10.4)	2,282	39.1	1,350	56.2

	Earnings per Share -Basic-	Earnings Per Share -Diluted-
	Yen	Yen
For the Nine months ended December 31, 2016	(8.22)	-
December 31, 2015	51.67	-

(2) Financial Position

	Total Assets	Total Net Assets	Equity Ratio
	Millions of Yen	Millions of Yen	%
As of December 31, 2016	121,938	43,831	31.8
As of March 31, 2015	106,513	46,338	37.9

2. Dividends

	Dividend Per Share				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2016	-	12.00	-	18.00	30.00
Year ending March 31, 2017	-	10.00	-	-	-
Year ending March 31, 2017 (Forecast)	-	-	-	15.00	25.00

3. Consolidated Financial Forecasts for the Fiscal Year Ending March 31, 2017

	Net Sales		Operating Income		Ordinary Income		Profit Attributable to Owners of Parent	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
Year ending March 31, 2017	270,000	(3.4)	1,900	(40.9)	2,000	(39.8)	900	(50.3)

	Earnings per Share -Basic-
	Yen
Year ending March 31, 2017	34.44

Note: These Financial Forecasts are based on management's assumptions and beliefs in light of the information currently available to it and therefore you should not place undue reliance on them. Marubun Corporation cautions you that a number of important factors could cause actual results to differ materially from those discussed in the forward-looking statements.

1. Qualitative information relating to consolidated operating results

During the first three quarters of the consolidated fiscal year under review (from April 1, 2016 to December 31, 2016), the Japanese economy continued a gradual recovery against a background of improved employment and income conditions and an uptick in consumer spending. However, improvements in corporate earnings and capital expenditure stalled. The outlook for the economic situation also remained unclear, given uncertainty in overseas economies and fluctuations in the financial and capital markets, reflecting the Brexit decision and the outcome of the presidential election in the United States.

In the electronics industry, where the Marubun Group operates, sales remained strong for automobile and datacenter servers. Demand for smartphones also remained steady, reflecting advances in functionality. Moreover, demand for memories that were embedded in devices as described above grew, centered on NAND flash memories.

In this environment, the Group posted net sales of 194,353 million yen for the first three quarters of the consolidated fiscal year under review, down 11.3% from the same period of the previous fiscal year, due mainly to decreased demand for semiconductors for communication modules and LCD panels for TV sets and PCs. Looking at profits, because a majority of sales transactions are denominated in US dollars, as a result of the drastic depreciation of the yen in the third quarter under review, gross profit increased. On the other hand, the Group posted foreign exchange losses of 842 million yen, mainly due to settlement of items denominated in foreign currencies. Selling, general and administrative expenses increased 1,951 million yen, reflecting increases in personnel expenses and other expenses, associated with an increase in the number of consolidated subsidiaries, and an increase in retirement benefit expenses. As a result, the Group posted operating income of 797 million yen, down 63.2% year on year, ordinary income of 105 million yen, a fall of 95.4%, and a loss attributable to owners of parent of 214 million yen (compared with profit attributable to owners of parent of 1,350 million yen posted for the same period of the previous fiscal year).

Operating results by business segment are as follows:

(Electronic Devices business)

In the Electronic Devices business, sales increased for industrial equipment and semiconductors for automobiles, thanks to contributions made by KTL Corporation, which joined the scope of consolidation in April 2016. In the meantime, sales decreased substantially for semiconductors for communication modules and sales also fell for LCD panels for TV sets and PCs. Moreover, sales remained sluggish for semiconductors for telecommunication infrastructure. As a result, net sales for the segment decreased 15.0% year on year, to 161,764 million yen, and the segment loss came to 111 million yen (compared with segment income of 1,436 million yen for the same period of the previous fiscal year).

(Electronic Systems business)

In the Electronic Systems business, sales declined mainly for components for satellites and image diagnostic equipment for medical equipment. However, sales expanded substantially for electronic component assembly and inspection equipment, classified under measurement and inspection equipment. Demand also remained steady for laser equipment, such as diode lasers to be embedded in industrial equipment and LED light sources for medical equipment. As a result, net sales for the segment grew 13.0% from the same period of the previous fiscal year, to 32,589 million yen. Segment income amounted to 917 million yen, up 24.0% from the same period of the previous fiscal year.

2. Qualitative information relating to the consolidated financial position

(Assets)

Current assets at the end of the first three quarters of the consolidated fiscal year under review were 109,910 million yen, up 13,699 million yen from the end of the previous fiscal year. This was mainly attributable to increases in notes and accounts receivable-trade of 11,774 million yen and merchandise and finished goods of 2,551 million yen. Non-current assets amounted to 12,027 million yen, increasing 1,725 million yen from the end of the previous fiscal year. This mainly reflected increases in investment securities of 690 million yen, goodwill of 476 million yen and buildings and structures of 321 million yen.

As a result, total assets came to 121,938 million yen, an increase of 15,424 million yen from the end of the previous fiscal year.

(Liabilities)

Current liabilities at the end of the first three quarters of the consolidated fiscal year under review were 66,793 million yen, rising 17,311 million yen from the end of the previous fiscal year. This figure chiefly reflected an increase in short-term loans payable of 19,658 million yen, which offset a fall in notes and accounts payable-trade of 2,735 million yen. Non-current liabilities were 11,313 million yen, a rise of 619 million yen from the end of the previous fiscal year. This outcome was primarily due to an increase in long-term loans payable of 517 million yen. As a result, total liabilities stood at 78,107 million yen, an increase of 17,931 million yen from the end of the previous fiscal year.

(Net assets)

Total net assets at the end of the first three quarters of the consolidated fiscal year under review were 43,831 million yen, a decrease of 2,507 million yen from the end of the previous fiscal year. This result mainly reflected a decrease in foreign currency translation adjustment of 1,311 million yen and a fall in retained earnings of 946 million yen. As a result, the equity ratio came to 31.8% (compared with 37.9% at the end of the previous fiscal year).

3. Qualitative information relating to consolidated financial forecasts

Our full-year consolidated financial results forecast for the fiscal year ending March 2017 remains unchanged from the financial results forecast announced on October 25, 2016.

Consolidated Financial Statements
(1) Consolidated Balance Sheet

(Millions of Yen)

	As of March 31, 2016	As of December 31, 2016
Assets		
Current assets		
Cash and deposits	14,096	12,559
Notes and accounts receivable - trade	53,539	65,313
Merchandise and finished goods	24,765	27,317
Work in process	150	316
Deferred tax assets	857	662
Other	2,819	3,811
Allowance for doubtful accounts	(17)	(70)
Total current assets	96,211	109,910
Non-current assets		
Property, plant and equipment		
Buildings and structures	3,558	3,617
Accumulated depreciation	(2,537)	(2,274)
Buildings and structures, net	1,021	1,342
Machinery, equipment and vehicles	21	17
Accumulated depreciation	(21)	(17)
Machinery, equipment and vehicles, net	0	0
Tools, furniture and fixtures	2,069	1,995
Accumulated depreciation	(1,710)	(1,594)
Tools, furniture and fixtures, net	358	401
Land	1,633	1,633
Leased assets	141	141
Accumulated depreciation	(75)	(93)
Leased assets, net	65	47
Construction in progress	0	60
Total property, plant and equipment	3,079	3,484
Intangible assets		
Goodwill	—	476
Other	342	460
Total intangible assets	342	937
Investments and other assets		
Investment securities	3,014	3,704
Deferred tax assets	644	797
Other	3,221	3,103
Total investments and other assets	6,880	7,605
Total non-current assets	10,302	12,027
Total assets	106,513	121,938

(Millions of Yen)

	As of March 31, 2016	As of December 31, 2016
Liabilities		
Current liabilities		
Notes and accounts payable - trade	35,921	33,186
Short-term loans payable	9,732	29,390
Current portion of long-term loans payable	2	112
Lease obligations	48	37
Income taxes payable	448	—
Provision for bonuses	860	539
Other	2,468	3,526
Total current liabilities	49,481	66,793
Non-current liabilities		
Long-term loans payable	8,500	9,017
Lease obligations	83	62
Net defined benefit liability	1,718	1,748
Provision for directors' retirement benefits	147	92
Asset retirement obligations	149	197
Other	94	195
Total non-current liabilities	10,693	11,313
Total liabilities	60,175	78,107
Net assets		
Shareholders' equity		
Capital stock	6,214	6,214
Capital surplus	6,353	6,353
Retained earnings	28,287	27,341
Treasury shares	(1,630)	(1,630)
Total shareholders' equity	39,225	38,278
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	465	765
Deferred gains or losses on hedges	(16)	99
Foreign currency translation adjustment	1,096	(215)
Remeasurements of defined benefit plans	(409)	(102)
Total accumulated other comprehensive income	1,135	546
Non-controlling interests	5,977	5,005
Total net assets	46,338	43,831
Total liabilities and net assets	106,513	121,938

(2) Consolidated Statements of Income

(Millions of Yen)

	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Net sales	219,117	194,353
Cost of sales	205,711	180,367
Gross profit	13,406	13,986
Selling, general and administrative expenses	11,237	13,188
Operating income	2,168	797
Non-operating income		
Interest income	15	32
Dividend income	48	37
Share of profit of entities accounted for using equity method	291	331
Miscellaneous income	190	101
Total non-operating income	545	502
Non-operating expenses		
Interest expenses	141	211
Sales discounts	131	83
Foreign exchange losses	60	842
Miscellaneous loss	98	57
Total non-operating expenses	432	1,195
Ordinary income	2,282	105
Extraordinary income		
Gain on sales of non-current assets	51	0
Gain on sales of investment securities	200	—
Gain on sales of real estate for investment	561	1
Gain on bargain purchase	27	—
Other	27	1
Total extraordinary income	868	2
Extraordinary losses		
Loss on sales and retirement of non-current assets	1	41
Impairment loss	739	—
Loss on step acquisitions	10	—
Other	52	5
Total extraordinary losses	803	46
Profit before income taxes	2,346	61
Income taxes	789	44
Profit	1,556	17
Profit attributable to non-controlling interests	206	231
Profit (loss) attributable to owners of parent	1,350	(214)

Consolidated statements of comprehensive income

(Millions of Yen)

	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Profit	1,556	17
Other comprehensive income		
Valuation difference on available-for-sale securities	(218)	299
Deferred gains or losses on hedges	(58)	116
Foreign currency translation adjustment	(298)	(2,217)
Remeasurements of defined benefit plans, net of tax	(149)	307
Total other comprehensive income	(725)	(1,494)
Comprehensive income	831	(1,477)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	753	(803)
Comprehensive income attributable to non-controlling	78	(673)

(3) Consolidated Statements of Cash Flows

(Millions of Yen)

	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Cash flows from operating activities		
Profit before income taxes	2,346	61
Depreciation	255	285
Amortization of goodwill	—	84
Impairment loss	739	—
Increase (decrease) in allowance for doubtful accounts	2	46
Increase (decrease) in provision for bonuses	△ 344	△ 441
Increase (decrease) in provision for directors' retirement benefits	△ 124	△ 55
Increase (decrease) in net defined benefit liability	△ 247	345
Increase (decrease) in net defined benefit asset	△ 17	—
Interest and dividend income	△ 63	△ 69
Interest expenses	141	211
Foreign exchange losses (gains)	310	1,680
Share of (profit) loss of entities accounted for using equity method	△ 291	△ 331
Loss (gain) on sales and retirement of non-current assets	△ 50	41
Loss (gain) on sales of investment securities	△ 200	0
Loss (gain) on sales of real estate investment	△ 561	△ 1
Gain on bargain purchase	△ 27	—
Loss (gain) on step acquisitions	10	—
Decrease (increase) in notes and accounts receivable - trade	11,312	△ 7,932
Decrease (increase) in inventories	732	△ 464
Increase (decrease) in notes and accounts payable - trade	△ 7,870	△ 2,737
Other, net	429	268
Subtotal	6,482	△ 9,008
Interest and dividend income received	107	241
Interest expenses paid	△ 140	△ 211
Income taxes paid	△ 648	△ 888
Income taxes refund	5	4
Net cash provided by (used in) operating activities	5,806	△ 9,863
Cash flows from investing activities		
Payments into time deposits	△ 377	△ 256
Proceeds from withdrawal of time deposits	281	284
Purchase of securities	△ 372	△ 329
Purchase of property, plant and equipment	△ 140	△ 257
Purchase of intangible assets	△ 21	△ 128
Purchase of investment securities	△ 637	△ 229
Proceeds from sales of investment securities	443	0
Proceeds from sales of investments in real estates	1,266	11
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	△ 286
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	122	—
Other, net	356	35
Net cash provided by (used in) investing activities	923	△ 1,155
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	△ 6,037	10,889
Proceeds from long-term loans payable	30	—
Repayments of long-term loans payable	△ 70	△ 87
Cash dividends paid	△ 651	△ 730
Dividends paid to non-controlling interests	△ 115	△ 297
Other, net	△ 26	△ 19
Net cash provided by (used in) financing activities	△ 6,872	9,754
Effect of exchange rate change on cash and cash equivalents	△ 113	△ 210
Net increase (decrease) in cash and cash equivalents	△ 255	△ 1,475
Cash and cash equivalents at beginning of period	21,512	13,702
Cash and cash equivalents at end of period	21,257	12,226

Consolidated Segment Information

Business Segments

Nine Months Ended December 31, 2015

(Millions of Yen)

	Business segments reported			Adjustment	Consolidated Statements of Income
	Electronic Devices	Electronic Systems	Total		
Net Sales					
(1) Outside Customers	190,279	28,838	219,117	-	219,117
(2) Inter-segment	0	151	151	(151)	-
Total Sales	190,279	28,990	219,269	(151)	219,117
Segment Income(loss)	1,436	739	2,176	(7)	2,168

Nine Months Ended December 31, 2016

(Millions of Yen)

	Business segments reported			Adjustment	Consolidated Statements of Income
	Electronic Devices	Electronic Systems	Total		
Net Sales					
(1) Outside Customers	161,764	32,589	194,353	-	194,353
(2) Inter-segment	19	208	228	(228)	-
Total Sales	161,784	32,797	194,582	(228)	194,353
Segment Income(loss)	(111)	917	806	(8)	797