

Tera Probe, Inc.

Financial Results

for the First Quarter FY2017

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Consolidated Financial Results (Japanese Accounting Standards) for the First Quarter FY2017 (Ended June 30, 2017)

July 27, 2017

Company name: Tera Probe, Inc.	Stock exchange listing: Tokyo Stock Exchange
Stock code: 6627	URL: http://www.teraprobe.com/
Representative: Yuichiro Watanabe, CEO	
Contact: Kazuhito Kanbe, CFO	Tel: +81-45-476-5711
Scheduled date of commencement of dividend payment: -	
Scheduled date for filing of quarterly report: August 10, 2017	
Supplementary documents: Yes	
Financial results briefing: None	

(Amounts of less than one million yen are truncated)

1. Consolidated Financial Results for the First Quarter of FY2017 (April 1, 2017 – June 30, 2017)

(1) Consolidated Results of Operations (Percentages show year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
1QFY2017	5,948	44.5	618	75.0	634	80.9	136	-12.5
1QFY2016	4,116	-28.4	353	-49.3	350	-49.8	156	-66.4

(Note) Comprehensive income: 299 million yen (-%) for the 1QFY2017
-260 million yen (-%) for the 1QFY2016

	Net income per share (basic)	Net income per share (diluted)
	Yen	Yen
1QFY2017	14.73	-
1QFY2016	16.83	-

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
1QFY2017	48,963	27,984	45.2	2,383.33
FY2016	46,330	27,268	47.5	2,371.64

(Reference) Shareholders' equity: 1QFY2017 : 22,122 million yen
FY2016 : 22,014 million yen

2. Dividends

	Dividends per share				
	1Q	2Q	3Q	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
FY2016	-	0.00	-	0.00	0.00
FY2017	-	-	-	-	-

3. Consolidated Earnings Forecast for the 2QFY2017 (April 1, 2017 - September 30, 2017)

The market environment in the semiconductor industry is characterized by short-term changes, which makes creation of a one-year business earnings forecast difficult. Therefore, in regard to Tera Probe's consolidated business outlook the company is only making available a forecast for the following quarter. Because of a difficulty of full-term forecast, a dividend forecast has been omitted, but we'll announce it timely when we can. The forecast for the Second Quarter of FY2017 is as follows.

(Percentages show year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	yen
2QFY2017	12,100	43.5	1,450	106.1	1,450	102.6	400	77.0	43.09

(Note) Correction from the latest published earnings forecasts: Yes

Notes

- (1) Changes of important subsidiaries during the period (changes specific in accordance with changes in the scope of consolidation) : None

- (2) Quarterly consolidated financial statements created using special accounting methods : Yes

- (3) Changes in accounting policies and changes or restatement of accounting estimates
 - (i) Changes in accounting policies caused by revision of accounting standards : None
 - (ii) Changes in accounting policies other than (i) : None
 - (iii) Changes in accounting estimates : None
 - (iv) Restatement : None

(4) Number of shares outstanding (common stock) :

(i) Number of shares outstanding at end of period (including treasury stock)	1QFY2017	9,282,500 shares	FY2016	9,282,500 shares
(ii) Number of treasury stock at end of period	1QFY2017	145 shares	FY2016	145 shares
(iii) Average number of shares outstanding during the period	1QFY2017	9,282,355 shares	1QFY2016	9,282,355 shares

*Notice concerning implementation of quarterly reviewing procedures

This quarterly earnings report is outside the jurisdiction of reviewing procedures outlined in the Financial Instruments and Exchange Law. The Law's reviewing procedures remained incomplete at the time this report was announced.

*Explanations and other special notes concerning the appropriate use of business results forecasts

Forward-looking statements such as business result forecasts included in this document are based on information available to Tera Probe at the time of the announcement of this document and on certain assumptions considered reasonable and do not represent promises made by the company. Actual results may differ materially from those expressed herein.

1. Qualitative Information on Financial Results for the Current

(1) Description of Operating Results

In the first quarter of the current fiscal year, net sales at Tera Probe Group increased compared with the previous quarter due to the continued strong demand for automotive products and the fact that Tera Probe Aizu, Inc. was newly consolidated. On the other hand, net income decreased compared with the previous quarter due to an increase in depreciation expenses related with capital expenditures corresponding to an increase in volume and temporary expenses related with the tender offer and business transfer.

As a result, the Group's consolidated results (cumulative) for the first quarter of the current fiscal year were net sales of 5,948 million yen (a year-on-year increase of 44.5%), operating income of 618 million yen (a year-on-year increase of 75.0%), ordinary income of 634 million yen (a year-on-year increase of 80.9%), and quarterly net income attributable to owners of parent of 136 million yen (a year-on-year decrease of 12.5%).

Performance by segment is as follows. The results by segment do not include consolidation adjustments, currency exchange rate adjustments and expenses not allocated by segment.

① Memory Business

In the first quarter, the memory business was largely affected by changes in production mix by a major customer both sales and profits fell compared to the previous quarter.

As a result, net sales in the memory business for the first quarter were 2,891 million yen (up 1.6% year on year) and segment profit was 569 million yen (down 23.0% from the same period last year).

② System LSI Business

In the first quarter of the system LSI business, both sales and profits increased compared to the previous quarter due to an increase in the volume for automotive products and the conversion of Tera Probe Aizu, Inc. into a consolidated subsidiary.

As a result, sales in the System LSI business during the first quarter came to 3,005 million yen (up 124.1% from the same period last year), segment profit was 517 million yen (loss for the previous year was 32 million yen) .

(2) Qualitative Information on Consolidated Financial Conditions

Financial Conditions

Total assets at the end of the first quarter were 48,963 million yen, an increase of 2,632 million yen from the end of the previous consolidated fiscal year. This was mainly due to a decrease of 1,000 million yen in securities, despite an increase of 4,096 million yen in Property, plant and equipment.

Total liabilities amounted to 20,979 million yen, an increase of 1,917 million yen from the end of the previous consolidated fiscal year. This was mainly due to an increase in long-term loans payable (including current portion of long term loans payable) by 740 million yen and short-term loans payable by 1,061 million yen.

Net assets were 27,984 million yen, an increase of 715 million yen from the end of the previous consolidated fiscal year. This was mainly due to an increase in retained earnings of 136 million yen and non-controlling interest of 607 million yen, respectively.

(3) Future Forecast

In the second quarter of this fiscal year, although the impact of changes in production mix by a major customer will continue, we anticipate that net sales will remain at the same level as a whole in the memory business.

In the system LSI business, we anticipate that the volume of automotive products will continue to increase.

As a result, the Group's consolidated results for the six months ending September 30, 2017 are 12,100 million yen in sales, 1,450 million yen in operating income, 1,450 million yen in ordinary income, and 400 million yen in net income attributable to owners of parent.

Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Thousand yen)

	End of previous fiscal year (As of March 31, 2017)	Three months ended (As of June 30, 2017)
Assets		
Current assets		
Cash and deposits	11,942,599	11,437,591
Notes and accounts receivable - trade	5,825,512	6,074,145
Securities	1,000,000	-
Finished goods	68,124	33,428
Work in process	303,864	305,863
Raw materials and supplies	52,518	57,179
Others	1,141,482	1,217,719
Total current assets	20,334,101	19,125,928
Noncurrent assets		
Property, plant and equipment		
Machinery, equipment and vehicles, net	13,632,192	14,589,584
Construction in progress	5,416,883	7,567,975
Others, net	5,951,230	6,939,035
Total property, plant and equipment	25,000,306	29,096,594
Intangible assets	293,878	296,035
Investments and other assets		
Others	702,436	445,122
Allowance for doubtful accounts	(81)	(81)
Total Investments and other assets	702,355	445,041
Total non-current assets	25,996,541	29,837,672
Total assets	46,330,642	48,963,600
Liabilities		
Current liabilities		
Notes and accounts payable - trade	501,568	484,768
Short-term loans payable	440,000	1,501,960
Current portion of long-term loans payable	388,000	388,000
Lease obligations	609,927	577,265
Income taxes payable	589,891	359,020
Provision for bonuses	674,667	575,581
Others	2,517,547	3,137,519
Total current liabilities	5,721,603	7,024,115

(Thousand yen)

	End of previous fiscal year (As of March 31, 2017)	Three months ended (As of June 30, 2017)
Noncurrent liabilities		
Long-term loans payable	11,632,239	12,372,867
Lease obligations	1,007,241	886,189
Net defined benefit liability	248,242	253,947
Others	452,392	441,961
Total noncurrent liabilities	13,340,116	13,954,966
Total liabilities	19,061,719	20,979,081
Net assets		
Shareholders' equity		
Capital Stock	11,823,312	11,823,312
Capital surplus	11,380,267	11,380,267
Retained earnings	(1,570,207)	(1,433,459)
Treasury shares	(128)	(128)
Total shareholders' equity	21,633,244	21,769,993
Accumulated other comprehensive income		
Foreign currency translation adjustment	469,906	439,012
Remeasurements of defined benefit plans	(88,704)	(86,076)
Total accumulated other comprehensive income	381,201	352,935
Non-controlling interests	5,254,476	5,861,590
Total net assets	27,268,922	27,984,518
Total liabilities and net assets	46,330,642	48,963,600

(2) Consolidated Statements of Income and Comprehensive Income

(Thousand yen)

	Three months ended (April 1, 2016 – June 30, 2016)	Three months ended (April 1, 2017 – June 30, 2017)
Net sales	4,116,091	5,948,454
Cost of sales	3,261,528	4,660,290
Gross profit	854,562	1,288,163
Selling, general and administrative expenses	501,011	669,300
Operating income	353,550	618,863
Non-operating income		
Interest income	1,245	1,165
Rent income on facilities	28,157	43,944
Others	47,108	34,023
Total non-operating income	76,512	79,133
Non-operating expenses		
Interest expenses	20,420	37,660
Share of loss of entities accounted for using equity method	22,368	-
Depreciation of assets for rent	19,403	22,272
Others	17,228	3,610
Total non-operating expenses	79,420	63,542
Ordinary income	350,642	634,454
Extraordinary income		
Gain on sales of non-current assets	5,177	29,741
Total extraordinary income	5,177	29,741
Extraordinary losses		
Loss on retirement of non-current assets	1,141	26,184
Impairment loss	43,519	-
Total extraordinary losses	44,660	26,184
Income before income taxes	311,158	638,011
Income taxes	5,048	280,601
Net Income	306,110	357,410

	Three months ended (April 1, 2016 – June 30, 2016)	Three months ended (April 1, 2017 – June 30, 2017)
Net income attributable to owners of parent	156,248	136,748
Net income attributable to non-controlling interests	149,862	220,661
Other comprehensive income		
Foreign currency translation adjustment	(569,554)	(60,577)
Remeasurements of defined benefit plans, net of tax	2,863	2,627
Total other comprehensive income	(566,690)	(57,949)
Comprehensive income	(260,579)	299,460
Comprehensive income attributable to owners of parent	(131,360)	108,482
Comprehensive income attributable to non-controlling interests	(129,219)	190,978

Segment Information

I First quarter consolidated cumulative period (from April 1, 2016 to June 30, 2016)

1. Information on the amount of sales and profit and loss per reportable segment

(Thousand Yen)

	Reporting segment			Adjustment amount	Total
	Memory Business	System LSI Business	Total		
Sales					
Sales to external customers	2,846,663	1,341,341	4,188,004	(71,913)	4,116,091
Intersegment sales or transfers	—	—	—	—	—
Total	2,846,663	1,341,341	4,188,004	(71,913)	4,116,091
Segment Profit (loss)	739,736	(32,131)	707,605	(354,054)	353,550

2. Impairment loss on fixed assets or goodwill in reportable segment

(Significant impairment losses on fixed assets)

In the memory business, for fixed assets that are no longer expected to be used in the originally planned applications, the book value is impaired to the recoverable amount as an asset to be disposed of, and the decrease amount is recorded as impairment loss in extraordinary loss. The amount of the loss incurred is 43,519 thousand yen in the "Memory Business" for the first quarter of the consolidated period.

II First quarter consolidated cumulative period (from April 1, 2017 to June 30, 2017)

1. Information on the amount of sales and profit and loss per reportable segment

(Thousand Yen)

	Reporting segment			Adjustment amount	Total
	Memory Business	System LSI Business	Total		
Sales					
Sales to external customers	2,890,081	3,005,703	5,895,784	52,669	5,948,454
Intersegment sales or transfers	1,283	—	1,283	(1,283)	—
Total	2,891,365	3,005,703	5,897,068	51,385	5,948,454
Segment Profit (loss)	569,780	517,813	1,087,594	(468,731)	618,863

2. Impairment loss on fixed assets or goodwill in reportable segment

None applicable.