

Tera Probe, Inc.

Financial Results

for the Second Quarter FY2017

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

November 7, 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	Kazuhiro Kanbe, CFO	Tel:	+81-45-476-5711
Scheduled date of commencement of dividend payment	—		
Scheduled date for filing of quarterly report	November 7, 2017		
Supplementary documents	:Yes (Only in Japanese)		
Financial results briefing	:Yes (for analysts and institutional investors)		

(Amounts of less than one million yen are truncated)

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

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

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
2QFY2017	11,866	40.8	1,226	74.3	1,207	69.7	257	13.8
2QFY2016	8,430	-27.5	703	-55.6	715	-53.9	226	36.4

(Note) Comprehensive income: 812 million yen (1,605.3%) for the 2QFY2017
47 million yen (82.2%) for the 2QFY2016

	Net income per share (basic)	Net income per share (diluted)
	Yen	Yen
2QFY2017	27.72	—
2QFY2016	24.35	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
2QFY2017	50,899	28,497	43.8	2,402.80
FY2016	46,330	27,268	47.5	2,371.64

(Reference) Shareholders' equity: 2QFY2017 : 22,303 million yen
FY2016 : 22,014 million yen

2. Dividends

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

3. Consolidated Earnings Forecast for the FY2017 (April 1, 2017 - December 31, 2017)

(Percentages show year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	yen
FY2017	17,800	—	1,900	—	1,850	—	450	—	48.48

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

Our 12th annual shareholders' meeting held on June 29, 2017 was resolved to change the articles of incorporation and the consolidated closing date to December 31 from March 31. So, the fiscal year ending December 31, 2017 is 9 months as a transition period. Our forecasts for this fiscal year from April 1, 2017 to December 31, 2017 are as above, and the rate of change to the previous fiscal year is omitted.

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)	2Q FY2017	9,282,500 shares	FY2016	9,282,500 shares
(ii) Number of treasury stock at end of period	2Q FY2017	145shares	FY2016	145shares
(iii) Average number of shares outstanding during the period	2Q FY2017	9,282,355 shares	2QFY2016	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 Act.

*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 second quarter of the current fiscal year, net sales at Tera Probe Group slightly decreased compared with the previous quarter due to the continued changes in production mix by a major customer and inventory adjustment in certain customers. So, the Group's consolidated results for the second quarter of the current fiscal year were net sales of 5,918 million yen (QoQ decrease of 0.5%), operating income of 607 million yen (QoQ decrease of 1.8%)

As a result, the Group's consolidated results (cumulative) for the second quarter of the current fiscal year were net sales of 11,866 million yen (YoY increase of 40.8%), operating income of 1,226 million yen (YoY increase of 74.3%), ordinary income of 1,207 million yen (YoY increase of 68.7%), and quarterly net income attributable to owners of parent of 257 million yen (YoY decrease of 13.8%).

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 second quarter, our memory business was affected by changes in production mix by a major customer and inventory adjustment of some products for entry model smartphones.

As a result, net sales in the memory business for the second quarter were 2,779 million yen (QoQ of decrease 3.9%) and segment profit was 415 million yen (QoQ of decrease 27.1%).

And, net sales in the memory business for the second quarter (cumulative) were 5,671 million yen (YoY increase of 2.2%) and segment profit was 985 million yen (YoY of decrease 24.1%).

② System LSI Business

In the second quarter, our system LSI business could offset the negative impact from the inventory adjustment by certain customers with an increase in the volume for automotive products. At the same time, depreciation expense went up by the capital investment for the increasing demand.

As a result, sales in the System LSI business during the second quarter came to 3,103 million yen (QoQ increase of 3.3%), segment profit was 504 million yen (QoQ decrease of 2.6%).

And, net sales in the System LSI business for the second quarter (cumulative) were 6,109 million yen (YoY increase of 108.4%) and segment profit was 1,022 million yen (YoY increase 972 yen million or 19.6times).

(2) Qualitative Information on Consolidated Financial Conditions

① Financial Conditions

Total assets at the end of the second quarter were 50,899 million yen, an increase of 4,569 million yen from the end of the previous consolidated fiscal year. This was mainly due to an increase of 5,319 million yen in Property, plant and equipment, despite a decrease of 1,000 million yen in securities.

Total liabilities amounted to 22,402 million yen, an increase of 3,340 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 1,945 million yen and short-term loans payable by 971 million yen.

Net assets were 28,497 million yen, an increase of 1,228 million yen from the end of the previous consolidated fiscal year. This was mainly due to an increase in retained earnings of 257 million yen and non-controlling interest of 939 million yen, respectively.

② Cash Flows

Cash and cash equivalents at the end of the second quarter of the current fiscal year increased by 765 million yen when compared to the end of the previous fiscal year, to 9,368 million yen.

The overall situation regarding cash flows during the first half of the current fiscal year was as described below.

Cash flows from operating activities were positive 4,200 million yen (YoY increase of 37.5%). The major positive factors were 1,209 million yen in profit before income taxes, 9,025 million yen in depreciation and amortization and an increase of payable-trade 262 million yen. The major negative factors were 540 million yen in payment of income taxes, and 115 million yen increase in receivable-trade.

Cash flows from investing activities were negative 7,369 million (YoY increase of 22.6%). This was largely due to the payment of 7,997 million for the purchase of fixed assets.

Cash flows from financing activities were a positive 2,982 million yen (YoY decrease of 24.9%). These were largely due to the proceeds from LT and ST loans by 6,706 million yen and the repayment of LT and ST loans by 3,833 million yen.

(3) Future Forecast

In the early third quarter of this fiscal year, although the impact of inventory adjustment will continue, we anticipate that the volume of demand will recover in the late third quarter and net sales will remain at the same level as the second quarter.

We also expect to reduce some expenses in this quarter and to improve the profitability. As a result, the Group's consolidated results for the nine months ending December 31, 2017 are 17,800 million yen in sales, 1,900 million yen in operating income, 1,850 million yen in ordinary income, and 450 million yen in net income attributable to owners of parent.

As for the interim dividend, we will forgo it because of accumulated loss.

Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Thousand yen)

	End of previous fiscal year (As of March 31, 2017)	Six months ended (As of September 30, 2017)
Assets		
Current assets		
Cash and deposits	11,942,599	12,268,166
Notes and accounts receivable-trade	5,825,512	5,949,829
Securities	1,000,000	-
Finished goods	68,124	18,886
Work in process	303,864	310,715
Raw materials and supplies	52,518	55,941
Others	1,141,482	1,330,151
Total current assets	20,334,101	19,933,691
Noncurrent assets		
Property, plant and equipment		
Machinery, equipment and vehicles, net	13,632,192	17,317,183
Construction in progress	5,416,883	5,814,772
Others, net	5,951,230	7,187,771
Total property, plant and equipment	25,000,306	30,319,727
Intangible assets	293,878	289,466
Investments and other assets		
Others	702,436	357,183
Allowance for doubtful accounts	(81)	(81)
Total Investments and other assets	702,355	357,102
Total non-current assets	25,996,541	30,966,296
Total assets	43,330,642	50,899,988
Liabilities		
Current liabilities		
Notes and accounts payable-trade	501,568	764,209
Short-term loans payable	440,000	1,411,830
Current portion of long-term loans payable	388,000	388,000
Lease obligations	609,927	540,056
Income taxes payable	589,891	387,763
Provision for bonuses	674,667	666,121
Others	2,517,547	3,160,171
Total current liabilities	5,721,603	7,318,152

(Thousand yen)

	End of previous fiscal year (As of March 31, 2017)	Six months ended (As of September 30, 2017)
Noncurrent liabilities		
Long-term loans payable	11,632,239	13,577,393
Lease obligations	1,007,241	769,809
Net defined benefit liability	248,242	259,881
Others	452,392	477,123
Total noncurrent liabilities	13,340,116	15,084,207
Total liabilities	19,061,719	22,402,360
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)	(1,312,884)
Treasury shares	(128)	(128)
Total shareholders' equity	21,633,244	21,890,567
Accumulated other comprehensive income		
Foreign currency translation adjustment	469,906	496,492
Remeasurements of defined benefit plans	(88,704)	(83,448)
Total accumulated other comprehensive income	381,201	413,043
Non-controlling interests	5,254,476	6,194,016
Total net assets	27,268,922	28,497,627
Total liabilities and net assets	46,330,642	50,899,988

(2) Consolidated Statements of Income and Comprehensive Income

(Thousand yen)

	Six months ended (April 1, 2016 – September 30, 2016)	Six months ended (April 1, 2017 – September 30, 2017)
Net sales	8,430,861	11,866,696
Cost of sales	6,753,456	9,437,539
Gross profit	1,677,404	2,429,156
Selling, general and administrative expenses	973,701	1,202,372
Operating profit	703,702	1,226,783
Non-operating income		
Interest income	2,018	2,097
Insurance income	30,119	-
Rent income on facilities	79,474	66,580
Others	25,318	64,585
Total non-operating income	136,931	133,263
Non-operating expenses		
Interest expenses	45,968	79,411
Share of loss of entities accounted for using equity method	3,561	-
Depreciation of assets for rent	35,057	41,562
Others	40,238	31,169
Total non-operating expenses	124,826	152,143
Ordinary profit	715,807	1,207,903
Extraordinary income		
Gain on sales of non-current assets	12,784	42,844
Others	300	-
Total extraordinary income	13,084	42,844
Extraordinary losses		
Loss on sales of non-current assets	11,499	26,183
Loss on retirement of non-current assets	5,728	15,291
Impairment loss	43,519	-
Provision for business transfer loss	-	-
Total extraordinary losses	60,746	41,475
Profit before income taxes and minority interests	668,145	1,209,272
Income taxes	103,122	454,087
Profit	565,023	755,185

	Six months ended (April 1, 2016 - September 30, 2016)	Six months ended (April 1, 2017 - September 30, 2017)
Profit attributable to		
Profit attributable to owners of parent	226,021	257,323
Profit attributable to non-controlling interests	339,001	497,862
Other comprehensive income		
Foreign currency translation adjustment	(523,099)	52,128
Remeasurements of defined benefit plans, net of tax	5,727	5,255
Total other comprehensive income	(517,372)	57,384
Comprehensive income	47,650	812,570
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(35,031)	289,164
Comprehensive income attributable to non-controlling interests	82,682	523,405

(3) Consolidated Statements of Cash Flows

(Thousand yen)

	Six months ended (April 1, 2016 - September 30, 2016)	Six months ended (April 1, 2017 - September 30, 2017)
Cash flows from operating activities		
Profit before income taxes	668,145	1,209,272
Depreciation	2,530,015	3,462,527
Impairment loss	43,519	-
Share-based compensation expenses	8,567	-
Increase (decrease) in net defined benefit liability	13,220	11,638
Increase (decrease) in provision for bonuses	58,652	(9,237)
Increase (decrease) in provision for business transfer loss	(175,408)	-
Interest income	(2,018)	(2,097)
Interest expenses	45,968	79,411
Rental	(79,474)	(66,580)
Insurance income	(30,119)	-
Share of (profit) loss of entities accounted for using equity method	3,561	-
Loss (gain) on Sales and retirement of non-current assets	4,442	(1,368)
Decrease (increase) in notes and accounts receivable-trade	1,282,609	(115,526)
Decrease (increase) in inventories	(104,229)	39,661
Increase (decrease) in notes and accounts payable-trade	(791,061)	262,489
Decrease (increase) in other current assets	(189,706)	(263,876)
Increase (decrease) in other current liabilities	176,768	252,839
Increase (decrease) in other non-current liabilities	4,173	(20,373)
Others, net	(47,920)	(20,524)
Subtotal	3,419,705	4,818,255
Interest income received	2,265	2,104
Interest expenses paid	(45,088)	(79,739)
Proceeds from subsidy income	12,341	-
Proceeds from insurance income	30,119	-
Income taxes refund	5,964	76,794
Income taxes paid	(369,294)	(616,503)
Business structure improvement expenses paid	-	-
Net cash provided by (used in) operating activities	3,056,013	4,200,911

	Six months ended (April 1, 2016 - September 30, 2016)	Six months ended (April 1, 2017 - September 30, 2017)
Cash flows from investing activities		
Payments into time deposits	(4,400,000)	(2,900,000)
Proceeds from withdrawal of time deposits	3,500,000	3,400,000
Purchase of property, plant and equipment	(5,990,419)	(7,997,858)
Proceeds from sales of property, plant and equipment	261,873	95,313
Purchase of intangible assets	(29,086)	(23,812)
Proceeds from rent income on facilities	80,717	66,580
Proceeds from transfer of business	596,547	-
Others, net	(30,249)	(10,030)
Net cash provided by (used in) investing activities	(6,010,616)	(7,369,807)
Cash flows from financing activities		
Increase in short-term loans payable	1,556,240	2,902,660
Decrease in short-term loans payable	(900,000)	(1,941,330)
Proceeds from long-term loans payable	3,503,052	3,803,729
Repayments of long-term loans payable	(465,907)	(1,891,883)
Repayments of lease obligations	(595,511)	(307,303)
Proceeds from sale-leaseback transaction	965,458	-
Proceeds from share issuance to non-controlling shareholders	-	721,941
Dividends paid to non-controlling interests	(94,548)	(305,806)
Net cash provided by (used in) financing activities	3,968,783	2,982,006
Effect of exchange rate change on cash and cash equivalents	(106,726)	12,456
Net increase (decrease) in cash and cash equivalents	907,454	(174,432)
Cash and cash equivalents at beginning of period	7,073,604	9,542,599
Cash and cash equivalents at end of period	7,981,058	9,368,166

Segment Information

I Second quarter consolidated cumulative period (from April 1, 2016 to September 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	5,548,100	2,931,961	8,480,062	(49,200)	8,430,861
Intersegment sales or transfers	—	—	—	—	—
Total	5,548,100	2,931,961	8,480,062	(49,200)	8,430,861
Segment Profit (loss)	1,298,787	49,553	1,348,340	(644,638)	703,702

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 second quarter of the consolidated period.

II Second quarter consolidated cumulative period (from April 1, 2017 to September 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	5,670,006	6,109,195	11,779,201	87,494	11,866,696
Intersegment sales or transfers	1,283	—	1,283	(1,283)	—
Total	5,671,289	6,109,195	11,780,485	86,210	11,866,696
Segment Profit (loss)	985,185	1,022,417	2,007,602	(780,819)	1,226,783

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

Not applicable.

Subsequent events

Not applicable.