

Financial Report for the 6-month Period Ended June 30, 2014 (Consolidated - Japanese Standards)

Company name: DAITO ELECTRON CO., LTD.
 Stock exchange listing: 1st Sections of the Tokyo Stock Exchange
 Code number: 7609 URL: <http://www.daitron.co.jp/>
 Representative: Isayuki Mae, President
 Contact: Keiichi Fukushima,
 Senior Corporate Officer & Division Manager-Business Administration
 TEL: +81-6-6399-5041

Scheduled date of submitting quarterly statement: August 12, 2014

Scheduled date of starting dividend payment: —

Support explanatory material for quarterly settlement: Prepared

Explanatory meeting for quarterly settlement: Held (for institutional investors and analysts)

(Figures less than a million yen are rounded down.)

1. Financial results for 6-month period ended June 30, 2014 (Consolidated)

(1) Operating results (Cumulative)

(Figures shown in percentages indicate the year-on-year rates of increase/decrease.)

	Net sales		Operating income		Ordinary income		Quarterly net income	
	Mil. yen	%	Mil. yen	%	Mil. yen	%	Mil. yen	%
2Q/2014	18,835	9.6	229	—	228	585.7	171	—
2Q/2013	17,191	(7.9)	(25)	—	33	(90.1)	0	(99.6)

Note: Comprehensive Income 2Q/2014: 137 million yen (-25.4%) 2Q/2013: 183 million yen (-9.6%)

	Quarterly net income per share	Diluted quarterly net income per share
	Yen	Yen
2Q/2014	15.45	—
2Q/2013	0.06	—

Note: Diluted quarterly net income per share is not shown because there existed no potential common stocks.

(2) Financial standing

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
2Q/2014	25,276	11,712	46.3	1,054.38
FY2013	23,766	11,630	48.9	1,047.04

(Reference) Shareholders' equity 2Q/2014: 11,708 million yen FY2013: 11,627 million yen

2. Dividend payments

	Annual dividend payment (Yen)				
	1Q end	2Q end	3Q end	fiscal end	Total
FY2013	—	0.00	—	5.00	5.00
FY2014	—	0.00			
FY2014 (expected)			—	5.00	5.00

(Note) Revision of the most recently announced dividend payment expectation: None

3. Consolidated operating estimates for fiscal 2013 ending December 31, 2014

(Figures shown in percentages indicate the year-on-year rates of increase/decrease.)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Mil.yen	%	Mil.yen	%	Mil.yen	%	Mil.yen	%	Yen
Full year	37,700	8.0	500	260.6	500	97.9	280	—	25.21

(Note) Revision of the most recently announced operating estimates: Revised

* Notes

(1) Change in significant subsidiaries (change in specific subsidiaries that entails a change in the scope of consolidation) during the current cumulative quarter: None

(2) Application of accounting procedures specially applicable to preparation of quarterly consolidated financial statements: None

(3) Change in accounting principles/estimates or restatement:

① Change associated with revision in accounting principles, etc: None

② Other change in accounting principles: None

③ Change in accounting estimates: None

④ Restatement: None

(Note)

(4) Number of outstanding shares (common shares)

① number of outstanding shares at period-end (including treasury stock)

2Q 2014 : 11,155,979 shares

FY 2013 : 11,155,979 shares

② number of treasury stocks at period-end

2Q 2014 : 51,184 shares

FY 2013 : 51,170 shares

③ average number of shares during period (quarterly cumulative)

2Q 2014 : 11,104,796 shares

2Q 2013 : 11,115,344 shares

* Representation on implementation status of the quarterly review procedures

This Quarterly Financial Report is not subject to the quarterly review procedures under the Financial Instruments and Exchange Act, and the review procedures for quarterly financial statements under the Act have not been completed at the time of disclosure of this Report.

* Explanations on appropriate use of the earnings forecasts and other special comments

(Note on references to future)

Please note that the statements concerning the future contained in this Report, including the earnings forecasts, are based on information obtained by the Company to date and given assumptions considered reasonable, but not a commitment to achieve them. In addition, the actual results may differ to a great extent depending on various factors that may arise in the future. For the preconditions for the earnings forecasts and notes for using them, please refer to "(3) Qualitative information on forecasted consolidated operating results" under "1. Qualitative information on accounts for the current cumulative quarter" shown on page 3 of Appendix.

(Method of acquiring support explanatory material for quarterly settlement and explanatory meeting for quarterly settlement)

The Company is scheduled to hold an explanatory meeting for institutional investors and analysts on August 6, 2014.

The support explanatory material for quarterly settlement will be shown on our website as soon as possible after such meeting.

[Contents of Appendix]

1. Qualitative information on accounts for the current cumulative quarter
 - (1) Explanation on business results
 - (2) Explanation on financial conditions
 - (3) Explanation on future outlook information such as forecasted consolidated operating results
2. Matters regarding summary information (Notes)
 - (1) Change in significant subsidiaries during the quarter
 - (2) Application of accounting procedures specially applicable to preparation of quarterly consolidated financial statements
 - (3) Change in accounting principles/estimates or restatement
3. Quarterly Consolidated Financial Statements
 - (1) Consolidated Balance Sheet
 - (2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Income
 - Consolidated cumulative second quarter
 - Consolidated Statement of Comprehensive Income
 - Consolidated cumulative second quarter
 - (3) Consolidated Statement of Cash Flows
 - (4) Notes to Quarterly Consolidated Financial Statements
 - (Notes regarding premise of a going concern)
 - (Notes for significant change in the amount of shareholders' equity)
 - (Segment Information, etc.)

1. Qualitative information on accounts for the current quarter

(1) Explanation on consolidated business results

As for an overview of global economy in this cumulative quarter, the US economy is on a gradually expanding trend supported by the increasing consumer spending, housing investments and corporate investments. European economies are on a gradually recovering trend in general, despite a slowdown in South Europe. In Asian countries including China, an expansionary trend is seen, though growth is slowing down.

The Japanese economy, with all the concerns over the impacts of the consumption tax hike and rising prices of crude oil and other materials, maintained the recovery trend basically, as seen in improved corporate earnings buoyed by the government's financial policies and money-easing measures by the Bank of Japan.

Our electronics industry, production was activated mainly in the auto-related, smart phone and tablet terminal, and their peripheral-related fields.

Under these circumstances, the Group is actively working on the four strategic themes of the 8th Three-Year Management Plan starting in the current year: "Enhancement and expansion of original products," "Enhancement and expansion of overseas operations," "Development of new markets/customers," and "Cultivation and lateral expansion of existing markets/customers." In business results under the impacts of the economic environments as stated above, the Company improved in both sales and profit.

Consequently, the Group obtained the following results in the current cumulative second quarter: net sales 18,835 million yen (up 9.6% from the same term last year); operating profit 229 million yen (25 million yen operating loss in the same term last year); ordinary income 228 million yen (up 585.7%); and quarterly net income 171 million yen (0 million yen in the same term last year).

The outline of segmental performance is as follows:

- Electronic Equipment and Components

As for this segment, with corporate production activities activated, connectors and harnesses of the "Electronic Components & Assembly Products," which are the Company's main products, in the auto-related and the semiconductor manufacturing equipment-related markets, and contactless IC card systems of the "Information System" in the amusement-related market, remained strong, respectively. In addition, with the good performance of video conferencing systems of the "Information System" supported by the facility replacement demand, the segment's net sales exceeded that of the same term in the previous year, while in profit the performance fell due to the increased Selling, general and administrative expenses as a result of strengthened sales promotion activities including participations in exhibitions and increased transportation costs for goods.

Consequently, net sales of this segment totaled 12,238 million yen (up 14.4% from the same term last year) with a segmental (operating) profit of 60 million yen (down 1.5%).

- Manufacturing Equipment

As for this segment, after a harsh business environment continued for a while, with corporate facility investments remaining on a recovery trend, orders increased significantly though this increase has not made a great contribution to net sales in the current quarter yet, which is a positive sign of earnings recovery. Under such circumstances, silicon wafer manufacturing equipment of the "Electronic Material Manufacturing Equipment" remained in a severe condition, while LSI manufacturing equipment of the "LSI Manufacturing Equipment" did well in general, with demand for production facilities for smart phone and tablet terminals increased, the net

sales of the entire segment exceeded that of the same term last year, and in profit, too, it led to compressed loss.

Consequently, net sales of this segment totaled 3,489 million yen (up 6.6% from the same term last year) with a segmental (operating) loss of 46 million yen (92 million yen loss in the same term last year).

- Domestic Subsidiaries

In this segment, as for Daito Denso Co., Ltd., which is engaged in the electronic equipment and component business, harness & assembly, etc. remained steady with corporate production activities activated and both sales and profit greatly exceeded the performance of the same term last year, while Daitron Technology Co., which is engaged in the manufacturing equipment business, was in a difficult condition in both sales and profit, with the sluggish growth in the LED manufacturing equipment related to the optical device business. In such conditions net sales in this segment fell below those of the same term last year, while in profit the result significantly exceeded the last year's as a result of reviewing manufacturing costs and compressing selling, general and administrative expenses.

Consequently, net sales of this segment totaled 1,043 million yen (down 8.7% from the same term last year) with a segmental (operating) profit of 159 million yen (13 million yen loss in the same term last year).

- Overseas Subsidiaries

As for this segment, Daitron (H.K.) Co., Ltd. remained strong in the electronic equipment and components business and the growth of Daitron (Malaysia) Sdn., Bhd. in image-related equipment business led to its improved results. However, as for Daitron, Inc., failed to grow with the temporary sales decline in the US of railroad vehicle harnesses due to a customer's production plan, and therefore the sales of the entire segment remained on almost the same level that of the same term last year, while in profit the result significantly fell short of the previous year's.

Consequently, net sales of this segment totaled 2,063 million yen (down 0.6% from the same term last year) with a segmental (operating) profit of 28 million yen (down 45.7%).

(2) Explanation on consolidated financial conditions

(a) Assets, liabilities, and net assets

(Assets)

Current assets at the end of this cumulative quarter amounted to 20,130 million yen (up 1,639 million yen from the previous fiscal-end) primarily due to the increases in notes and accounts receivable by 1,253 million yen and goods and products by 303 million yen, respectively. Fixed assets amounted to 5,145 million yen (down 128 million yen), as a result of the decreases in tangible fixed assets by 51 million yen, intangible fixed assets by 43 million yen, and investments and other assets by 33 million yen, respectively.

Consequently, the total assets stood at 25,276 million yen, up 1,510 million yen from the end of the previous fiscal year.

(Liabilities)

Current liabilities at the end of this cumulative quarter amounted to 11,488 million yen (up 1,374 million yen from the previous fiscal-end), primarily due to the increase in notes and accounts payable by 1,685 million yen.

Fixed liabilities amounted to 2,075 million yen (up 53 million yen), primarily due to the increase in allowance for employees' retirement benefits by 69 million yen.

Consequently, the total liabilities stood at 13,564 million yen, up 1,428 million yen from the end of the previous fiscal year.

(Net assets)

Total net assets at the end of this cumulative quarter amounted to 11,712 million yen (up 81 million yen from the previous fiscal-end), primarily due to the increase in retained earnings by 116 million yen and the decrease in foreign currency translation adjustments by 32 million yen.

Consequently, the shareholders' equity ratio stood at 46.3%, down 2.6 point from the end of the previous fiscal year.

(b) Cash flow

The balance of cash and cash equivalents at the end of this cumulative quarter (hereinafter called "Fund") stood at 5,493 million yen, down 87 million yen over the previous fiscal-end.

Below are the status and the factors of each cash flow in this cumulative second quarter.

(Cash flows from operating activities)

As a result of operating activities, the Fund increased 137 million yen (393 million yen increase in the same term last year). The main increasing factor is 1,713 million yen increase in trade notes and accounts payable, and the main decreasing factor is 1,458 million yen increase in accounts receivable.

(Cash flows from investing activities)

As a result of investing activities, the Fund decreased 46 million yen (78 million yen decrease in the same term last year). The main decreasing factor is 60 million yen payments for purchase of tangible fixed assets.

(Cash flows from financing activities)

As a result of financing activities, the Fund decreased 152 million yen (234 million yen decrease in the same term last year). The main decreasing factor is 161 million yen repayments of long-term borrowings.

(3) Explanation on future outlook information such as forecasted consolidated operating results

As for the future outlook of the Japanese economy, corporate facility investments are increasing and expected to expand gradually, despite the continued uncertainty due to the impacts of international conflicts, etc. on global economy, increasing crude oil and other materials prices, and a slowing trend in growth of newly emerging economies on export industries.

Based on such business circumstances, the Group revised its business forecasts contained in the Financial Report for the 12-month Period Ended December 31, 2013 announced on February 6, 2014.

For the details, please refer to the Announcement of Difference in Forecasted-Actual Results and Revisions of Consolidated Business Forecast for Cumulative 2nd Quarter of FY 2014 announced today, August 1, 2014.

These earnings forecasts are based on information obtained by the Company at the date of announcement of this material and the actual results may differ depending on various factors. In case there arises a possibility of revision, it will be disclosed as soon as possible.

2. Matters regarding summary information (Notes)

(1) Change in significant subsidiaries during this cumulative period: N.A.

(2) Application of accounting procedures specially applicable to preparation of quarterly consolidated financial

statements: N.A.

(3) Change in accounting principles and estimates, and revised and restatements: N.A.

3. Quarterly Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Unit: thousand yen)

	Previous FY (at December 31, 2013)	Current quarter (at June 30, 2014)
Assets		
Current assets		
Cash and deposits	5,611,441	5,523,543
Notes and accounts receivable - Trade	9,009,210	10,262,534
Electronically recorded monetary claims	945,276	1,126,188
Goods and products	1,366,500	1,669,518
Work in process	743,521	906,322
Raw materials	222,179	299,350
Other current assets	594,358	345,240
Allowance for doubtful accounts	(904)	(2,099)
Total current assets	18,491,584	20,130,598
Fixed assets		
Tangible fixed assets	3,332,978	3,281,443
Intangible fixed assets	146,578	102,893
Investments and other assets		
Other investments and other assets	1,831,125	1,828,184
Allowance for doubtful accounts	(36,163)	(66,977)
Total investments and other assets	1,794,961	1,761,207
Total fixed assets	5,274,518	5,145,544
Total assets	23,766,103	25,276,143

	Previous FY (at December 31, 2013)	Current quarter (at June 30, 2014)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,642,959	9,328,341
Short-term loans payable	100,000	200,000
Long-term loans payable due within one year	1,039,970	878,630
Accrued Income taxes, etc.	97,284	127,892
Allowance for bonuses	49,666	55,970
Other allowances	38,431	45,228
Other current liabilities	1,145,460	852,465
Total current liabilities	10,113,772	11,488,527
Fixed liabilities		
Allowance for employees' retirement benefits	1,758,353	1,828,049
Asset retirement obligation	46,862	47,216
Other fixed liabilities	216,557	200,301
Total fixed liabilities	2,021,773	2,075,567
Total liabilities	12,135,546	13,564,095
Net assets		
Shareholders' equity		
Common stock	2,200,708	2,200,708
Capital surplus	2,482,896	2,482,896
Retained earnings	6,691,248	6,807,288
Treasury stock	(19,329)	(19,335)
Total shareholders' equity	11,355,523	11,471,557
Accumulated other comprehensive income		
Difference from evaluation of other investment securities	330,905	329,515
Deferred gains or losses on hedges	118	(532)
Foreign currency translation adjustments	(59,357)	(91,858)
Total accumulated other comprehensive income	271,667	237,124
Minority interests	3,366	3,366
Total net assets	11,630,556	11,712,048
Total liabilities and net assets	23,766,103	25,276,143

(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

(Consolidated Statement of Income)

(Unit: thousand yen)

	6 months Ended June 30, 2013	6 months Ended June 30, 2014
Net sales	17,191,789	18,835,311
Cost of sales	13,567,977	14,887,850
Gross profit	3,623,811	3,947,461
Selling, general and administrative expenses	3,649,116	3,717,869
Operating income/(loss)	(25,304)	229,591
Non-operating income		
Interest income	3,365	3,206
Dividend income	6,446	8,147
Foreign exchange profit	52,218	—
Insurance dividend	10,806	11,095
Other non-operating income	17,094	21,265
Total non-operating income	89,932	43,715
Non-operating expenses		
Interest expense	20,844	16,460
Loss on sale of trade notes	2,366	2,648
Foreign exchange loss	—	18,896
Other non-operating losses	8,157	7,260
Total non-operating expenses	31,369	45,265
Ordinary income	33,258	228,042
Extraordinary income		
Gain on sale of fixed assets	232	18,957
Gain on sale of investment securities	421	—
Total extraordinary income	653	18,957
Extraordinary losses		
Loss on sale and retirement of fixed assets	347	140
Total extraordinary losses	347	140
Net income before taxes and adjustments	33,564	246,859
Income, inhabitants and enterprise taxes	95,772	129,622
Income taxes-deferred	(62,823)	(54,327)
Total income taxes	32,948	75,295
Net income before minority shareholders profit and loss adjustments	615	171,563
Net income	615	171,563

(Consolidated Statement of Comprehensive Income)

(Unit: thousand yen)

	6 months Ended June 30, 2013	6 months Ended June 30, 2014
Net income before minority shareholders profit and loss adjustments	615	171,563
Accumulated other comprehensive income		
Difference from evaluation of other investment securities	145,132	(1,390)
Deferred gains or losses on hedges	(12,286)	(651)
Foreign currency translation adjustments	50,212	(32,501)
Total accumulated other comprehensive income	183,058	(34,543)
Quarterly comprehensive income	183,674	137,020
(Breakdown)		
Quarterly comprehensive income pertaining to parent's shareholders	183,674	137,020
Quarterly comprehensive income pertaining to minority shareholders	—	—

(3) Consolidated Statement of Cash Flows

(Unit: thousand Yen)

	6 months Ended June 30, 2013	6 months Ended June 30, 2014
Cash flows from operating activities		
Net income before taxes and adjustments	33,564	246,859
Depreciation and amortization	206,736	148,890
Interest and dividend income	(9,812)	(11,354)
Interest expense	20,844	16,460
(Gain)/Loss on sale and retirement of fixed assets	114	(18,817)
(Gain)/Loss on sale of investment securities	(421)	—
Decrease/(increase) in accounts receivable	(591,547)	(1,458,342)
Decrease/(increase) in inventories	(291,569)	(551,760)
Decrease/(increase) in advance payment	(285,742)	265,398
Increase/(decrease) in trade notes and accounts payable	966,548	1,713,767
Increase/(decrease) in advance received	599,416	(223,228)
Increase/(decrease) in allowances	56,865	82,630
Others	(35,965)	31,551
Sub-total	669,032	242,055
Interest and dividend received	11,026	11,127
Interest paid	(21,568)	(16,341)
Income tax and other taxes paid	(265,183)	(98,974)
Net cash provided by/(used in) operating activities	393,307	137,866
Cash flows from investing activities		
Payment for purchase of tangible fixed assets	(74,088)	(60,123)
Proceeds from sale of tangible fixed assets	731	34,514
Payment for purchase of investment securities	(9,989)	(9,996)
Proceeds from sale of investment securities	10,115	—
Others	(5,283)	(10,815)
Net cash provided by/(used in) investing activities	(78,514)	(46,421)
Cash flows from financing activities		
Net increase/(decrease) in short-term loans payable	100,000	100,000
Repayment of long-term loans payable	(161,340)	(161,340)
Dividends paid	(111,133)	(55,812)
Others	(61,625)	(35,231)
Net cash provided by/(used in) financing activities	(234,098)	(152,383)
Effect of exchange rate changes on cash and cash equivalents	67,934	(26,959)
Increase/(decrease) in cash and cash equivalents	148,628	(87,897)
Cash and cash equivalents at beginning of period	5,718,734	5,581,441

Cash and cash equivalents at quarter end

5,867,363

5,493,543

(4) Notes to Quarterly Consolidated Financial Statements

(Notes regarding premise of a going concern)

N.A.

(Notes for significant change in the amount of shareholders' equity)

N.A.

(Segment Information, etc.)

[6 months Ended June 30, 2013]

a. Information on the amounts of net sales and income/(loss) by report segment

(Unit: thousand yen)

	Report Segment				
	Electronic Equipment & Components	Manufacturing Equipment	Domestic Subsidiaries	Overseas Subsidiaries	Total
Net sales					
- Sales to outside customers	10,700,647	3,273,191	1,143,001	2,074,948	17,191,789
- Inter-segmental sales or transfer	435,039	121,369	1,957,894	37,653	2,551,955
Total	11,135,686	3,394,561	3,100,895	2,112,602	19,743,744
Segment income/(loss)	61,144	(92,104)	(13,731)	53,305	8,614

	Adjustment (*1)	Amount on Consolidated Financial Statements (*2)
Net sales		
- Sales to outside customers	—	17,191,789
- Inter-segmental sales or transfer	(2,551,955)	—
Total	(2,551,955)	17,191,789
Segment income/(loss)	(33,919)	(25,304)

(Notes) 1. Adjustment in Segment income/(loss) of (33,919) thousand yen includes the inter-segmental transaction elimination of 36,377 thousand yen and Corporate allocation not allocated to each Report Segment of (70,296) thousand yen. The main portion of Corporate allocation is Selling, general and administrative expenses not attributable to Report Segments.

2. Adjustments are made in the difference between Segment income/(loss) and Operating income/(loss) on the quarterly Consolidated Statement of Income.

b. Information on Impairment loss on fixed assets or Goodwill, etc. by Report Segment: N.A.

[6 months Ended June 30, 2014]

a. Information on the amounts of net sales and income/(loss) by report segment

(Unit: thousand yen)

	Report Segment				
	Electronic Equipment & Components	Manufacturing Equipment	Domestic Subsidiaries	Overseas Subsidiaries	Total
Net sales					
- Sales to outside customers	12,238,425	3,489,557	1,043,910	2,063,418	18,835,311
- Inter-segmental sales or transfer	500,657	103,518	2,060,273	72,029	2,736,479
Total	12,739,082	3,593,076	3,104,184	2,135,448	21,571,791
Segment income/(loss)	60,200	(46,265)	159,444	28,943	202,322

	Adjustment (*1)	Amount on Consolidated Financial Statements (*2)
Net sales		
- Sales to outside customers	—	18,835,311
- Inter-segmental sales or transfer	(2,736,479)	—
Total	(2,736,479)	18,835,311
Segment income/(loss)	27,269	229,591

(Notes) 1. Adjustment in Segment income/(loss) of 27,269 thousand yen includes the inter-segmental transaction elimination of 40,918 thousand yen and Corporate allocation not allocated to each Report Segment of (13,649) thousand yen. The main portion of Corporate allocation is Selling, general and administrative expenses not attributable to Report Segments.

2. Adjustments are made in the difference between Segment income/(loss) and Operating income/(loss) on the quarterly Consolidated Statement of Income.

b. Information on Impairment loss on fixed assets or Goodwill, etc. by Report Segment: N.A.