

Financial Report for the 9-month Period Ended September 30, 2015 (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: Hajimu Mouri, Senior Corporate Officer & Division Manager-Business Administration
 +81 (6) 6399-5041

Scheduled date of submitting quarterly statement: November 13, 2015

Scheduled date of starting dividend payment: —
 Support explanatory material for quarterly settlement: None

Explanatory meeting for quarterly settlement: None

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

1. Financial results for 9-month period ended September 30, 2015 (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	%
3Q/2015	31,750	12.3	1,105	153.1	1,078	126.8	727	106.4
3Q/2014	28,268	8.3	436	—	475	482.2	352	—

Note: Comprehensive Income 3Q/2015: 732 million yen (107.4%) 3Q/2014: 353 million yen (54.2%)

	Quarterly net income per share	Diluted quarterly net income per share
	Yen	Yen
3Q/2015	65.48	—
3Q/2014	31.72	—

Note: Diluted quarterly net income per share is not shown because there exist no residual stocks.

(2) Financial standing

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
3Q/2015	29,080	12,727	43.8	1,145.84
FY2014	27,312	12,161	44.5	1,094.87

(Reference) Shareholders' equity 3Q/2015: 12,723 million yen FY2014: 12,158 million yen

2. Dividend payments

	Annual dividend payment (Yen)				
	1Q end	2Q end	3Q end	fiscal end	Total
FY2014	—	0.00	—	15.00	15.00
FY2015	—	0.00	—		
FY2015 (expected)				20.00	20.00

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

3. Consolidated operating estimates for fiscal 2015 ending December 31, 2015

(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	43,000	11.1	1,350	74.3	1,350	56.7	860	34.1	77.45

(Note) Revision of the most recently announced operating estimates: None

* Notes

(1) Change in significant subsidiaries (change in specific subsidiaries that entails a change in the scope of consolidation) during the 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.: Changed

② Other change in accounting principles: None

③ Change in accounting estimates: None

④ Restatement: None

(Note) For the detail, please refer to "(3) Change in accounting principles/estimates and restatement" under "2. Matters regarding summary information (Notes)" shown on page 3 of Appendix.

(4) Number of outstanding shares (common shares)

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

3Q 2015 : 11,155,979 shares

FY 2014 : 11,155,979 shares

② number of treasury stocks at period-end

3Q 2015 : 51,801 shares

FY 2014 : 51,184 shares

③ average number of shares during period (quarterly cumulative)

3Q 2015 : 11,104,589 shares

3Q 2014 : 11,104,796 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 to date and given assumptions considered reasonable by the Company, 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.

[Contents of Appendix]

1. Qualitative information on accounts for the current cumulative quarter
 - (1) Discussion regarding business results
 - (2) Discussion regarding financial conditions
 - (3) Discussion regarding forecast information such as consolidated earnings forecasts
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 and 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 Statement of Comprehensive Income
 - (3) Notes to Quarterly Consolidated Financial Statements
 - Notes regarding the premise of a going concern
 - Notes on significant change in the amount of shareholders' equity
 - Segment Information, etc.

1. Qualitative information on accounts for the current quarter

(1) Discussion regarding business results

The Japanese economy in this quarter stayed on a gradual recovery trend in general with corporate profits improved mainly in the export industry and under the effects of the government's economic policies and the monetary easing steps by the Bank of Japan. Globally, with the steady expansion of the US economy and the recovery trend of the European economy, the economy remained steady on the whole. However, the global economic environment is adding to a mood of uncertainty based on the slowdown of the economic growth in China and other newly emerging nations in Asia as well as concerns about the influence of the US financial policies, which may affect the Japanese economy, especially the exporting industries.

In our electronics industry, though in-vehicle electronic equipment and related fields remained strong, a sense of uncertainty about the future is increasing with the growth rate of demand for smart phones and tablet devices are on a declining trend compared with those in the previous year.

Under these circumstances, the sales of the Group exceeded those of the same term last year, and in profit, too, the performance improved greatly, buoyed by the effect of increased income in the manufacturing equipment field, etc., though the growth slowed down.

Consequently, the Group obtained the following results in the current cumulative third quarter: net sales 31,750 million yen (up 12.3% from the same term last year); operating income 1,105 million yen (up 153.1%); ordinary income 1,078 million yen (up 126.8%); and quarterly net profit 727 million yen (up 106.4%).

The outline of segmental performance is as follows:

In our group-wide efforts on the strategic themes of "Enhancement and expansion of original products," "Enhancement and expansion of overseas operations," "Cultivation and lateral expansion of existing markets/customers," and "Development of new markets/customers," the Company integrated the Electronics Operation and the Machinery Operation to promote the development of new markets and the lateral expansion of existing markets.

With this integration, as from the previous quarter, the previous two segments, "Electronic Equipment and Components" and "Manufacturing Equipment," were integrated and renamed "Domestic Sales Companies," and the previous "Domestic Subsidiaries" was also renamed "Domestic Manufacturing Companies," as the manufacturing function to seek to strengthen and extend original products. With "Overseas Subsidiaries" in addition to these, which is working to accelerate the Group's global business, the Company's business segments are now classified into three segments.

The year-on-year comparisons of the results of respective segments are made with the figures of the same term of the previous year transferred to the new report segments after the change.

- Domestic Sales Companies

As for this segment, as sales grew from the same term last year in "Semiconductors and FPD Manufacturing Equipment" and other manufacturing equipment in addition to the good performance of computer products of "Embedded System" and CCD cameras and peripherals, etc. of "Image-Related Equipment and Parts," the results exceeded those of the same term last year both in sales and profits.

Consequently, net sales of this segment totaled 26,883 million yen (up 13.9% from the same term last year) with a segmental (operating) income of 305 million yen (up 401.9%).

- Domestic Manufacturing Companies

In this segment, as for the performance of Daitron Technology Co., Ltd., dealing with manufacturing equipment, the sales of processing and inspection equipment, etc., mainly in the Japanese and Chinese markets grew associated with the increase in optical semiconductor-related demand, despite the decreasing trend in demand for semiconductor manufacturing equipment in the communication related device market. As for Daito Denso Co., Ltd., dealing with electronic equipment and components, the sales grew in harnesses and connectors in the aerospace and defense fields, and in switching power supplies in the measuring equipment field, respectively. For these factors, the net sales of this segment increased only a little from those of the same term last year, while profit improved greatly due to the increased profit rate.

Consequently, net sales of this segment totaled 1,608 million yen (up 2.7% from the same term last year) with a segmental (operating) income of 559 million yen (up 107.9 %).

- Overseas Subsidiaries

As for this segment, despite the increased sales in "Electronic Components & Assembly Products" and "Semiconductors," etc. in the Chinese market, the results declined both in sales and profit due to the decreased sales of "Power Supply Equipment." In the Southeast Asian market, with the sales of "Semiconductors" improved, the results grew slightly both in sales and profit. In the US market, with the growth in the sales of "Electronic Components & Assembly Products," both sales and profit increased.

Consequently, net sales of this segment totaled 3,258 million yen (up 4.9%) with a segmental (operating) income of 211 million yen (up 239.6 %).

(2) Discussion regarding financial conditions

(Assets)

Current assets at the end of this quarter amounted to 24,049 million yen (up 1,849 million yen from the previous fiscal-end), primarily due to the increase in notes and accounts receivable by 378 million yen and electronically recorded monetary claims by 470 million yen, and work in process by 504 million yen, respectively. Fixed assets amounted to 5,030 million yen (down 82 million yen from the previous fiscal-end), as a result of the decreases in tangible fixed assets by 35 million yen, intangible fixed assets by 21 million yen, and investments and other assets by 25 million yen, respectively.

Consequently, the total assets stood at 29,080 million yen, up 1,767 million yen from the end of the previous fiscal year.

(Liabilities)

Current liabilities at the end of this quarter amounted to 13,204 million yen (up 1,263 million yen from the previous fiscal-end), primarily due to the increase in electronically recorded obligations by 2,103 million yen and short-term loans payable by 520 million yen, despite the decrease in notes and accounts payable by 1,749 million yen. Fixed liabilities amounted to 3,148 million yen (down 61 million yen).

Consequently, the total liabilities stood at 16,353 million yen, up 1,202 million yen from the end of the previous fiscal year.

(Net assets)

Total net assets at the end of this quarter amounted to 12,727 million yen (up 565 million yen from the previous fiscal-end), primarily due to the increase in earned surplus by 560 million yen.

Consequently, the shareholders' equity ratio stood at 43.8%, down 0.7 point from the end of the previous fiscal year.

(3) Discussion regarding forecast information such as consolidated earnings forecasts

As for the consolidated earnings forecasts, there is no change from those contained in the Financial Report for the 6-month Period Ended August 3, 2015 announced on August 3, 2015. Please note that the earnings forecasts are prepared based on information available at the date of the announcement of this Report, and the actual results may differ depending on various factors that may arise in the future. In case any possibility of revision in the earnings forecasts arises, it will be disclosed promptly.

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/estimates and restatements:

(Application of accounting standards, etc. for employees' retirement benefits)

As from the previous quarter, the Company: (i) applied the Accounting Standards for Retirement Benefits (Corporate Accounting Standards No.26, May 17, 2014; hereinafter called "Retirement Benefits Accounting Standards") and the Application Guideline of the Accounting Standards for Retirement Benefits (Corporate Accounting Standards Application Guideline No.25, March 26, 2015; hereinafter called "Retirement Benefits Application Guideline") to the provisions stated in the body of Paragraph 35 of the Retirement Benefits Accounting Standards and that of Paragraph 67 of the Retirement Benefits Application Guideline; (ii) reviewed the calculation method for retirement benefit obligations and service costs; (iii) changed the period attribution method for expected retirement benefits from the period fixed amount based method to the benefit calculation formula based method; and (iv) changed the discount rate calculation method from the one based on the number of years approximated to the average remaining service years of employees to the one using a single weighted average discount rate reflecting the expected payment period of retirement benefits and the amount by such period.

There will be no effect of this change on the consolidated quarterly financial statements.

(4) Additional information:

(Effect of changes in corporate tax rates, etc.)

The Act for Partial Revision of the Income Tax Act (Act No. 9 of 2015) and the Act for Partial Revision of the Local Tax Act (Act No. 2 of 2015) were promulgated on March 31, 2015, and lowered tax rates, etc. will be applicable as from the consolidated accounting period commencing on April 1, 2015 or later. With this revision, the effective statutory tax rate used for the calculation of deferred tax assets and deferred tax liabilities will be lowered from the previous 38.0% to: (i) 35.6% for temporary differences expected to disappear in the accounting year commencing on January 1, 2015; (ii) 33.1% for temporary differences expected to disappear in the accounting year commencing on January 1, 2016; and (ii) 32.3% for temporary differences expected to disappear in the accounting year commencing on January 1, 2017 or later.

The effect of this tax rate change will be minor.

3. Quarterly Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Unit: thousand yen)

	Previous FY (at Dec 31, 2014)	Current quarter (at Sep 30, 2015)
Assets		
Current assets		
Cash and deposits	6,122,205	6,097,578
Notes and accounts receivable - Trade	10,590,343	10,968,562
Electronically recorded monetary claims	1,768,084	2,238,310
Goods and products	1,780,364	1,931,748
Work in process	844,181	1,349,003
Raw materials	469,139	478,605
Other current assets	626,787	989,140
Allowance for doubtful accounts	(1,873)	(3,746)
Total current assets	22,199,232	24,049,202
Fixed assets		
Tangible fixed assets	3,252,791	3,217,412
Intangible fixed assets	84,778	63,229
Investments and other assets		
Other investments and other assets	1,843,461	1,817,047
Allowance for doubtful accounts	(67,691)	(66,854)
Total investments and other assets	1,775,769	1,750,193
Total fixed assets	5,113,339	5,030,835
Total assets	27,312,572	29,080,038

	Previous FY (at Dec 31, 2014)	Current quarter (at Sep 30, 2015)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	8,241,765	6,492,279
Electronically recorded monetary obligations	1,723,576	3,827,382
Short-term loans payable	100,000	620,000
Long-term loans payable due within one year	66,660	66,660
Accrued Income taxes, etc.	222,606	292,913
Allowance for bonuses	58,564	450,087
Other allowances	35,911	64,523
Other current liabilities	1,492,154	1,390,922,
Total current liabilities	11,941,239	13,204,768
Fixed liabilities		
Long-term loans payable	905,565	855,570
Liabilities pertaining to employees' retirement benefits	2,085,776	2,160,739
Asset retirement obligation	47,570	48,111
Other fixed liabilities	170,766	83,833
Total fixed liabilities	3,209,678	3,148,254
Total liabilities	15,150,917	16,353,023
Net assets		
Shareholders' equity		
Common stock	2,200,708	2,200,708
Capital surplus	2,482,896	2,482,896
Retained earnings	7,276,961	7,837,554
Treasury stock	(19,335)	(19,873)
Total shareholders' equity	11,941,230	12,501,285
Accumulated other comprehensive income		
Difference from evaluation of other investment securities	356,199	359,103
Deferred gains or losses on hedges	(5,362)	(734)
Foreign currency translation adjustments	1,372	16,257
Accumulated adjustment pertaining to employees' retirement benefits	(135,151)	(152,263)
Total accumulated other comprehensive income	217,058	222,363
Minority interests	3,366	3,366
Total net assets	12,161,655	12,727,014
Total liabilities and net assets	27,312,572	29,080,038

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

(Consolidated Statement of Income)

(Unit: thousand yen)

	9 months Ended Sep 30, 2014	9 months Ended Sep 30, 2015
Net sales	28,268,049	31,750,173
Cost of sales	22,252,855	24,729,825
Gross profit	6,015,194	7,020,347
Selling, general and administrative expenses	5,578,288	5,914,484
Operating income	436,905	1,105,863
Non-operating income		
Interest income	5,440	3,727
Dividend income	10,450	12,164
Insurance dividend	11,095	11,909
Foreign exchange profit	12,289	—
Other non-operating income	36,409	31,334
Total non-operating income	75,686	59,135
Non-operating expenses		
Interest expense	22,298	14,806
Loss on sale of trade notes	3,411	2,883
Foreign exchange loss	—	53,190
Other non-operating losses	11,355	15,478
Total non-operating expenses	37,065	86,359
Ordinary income	475,526	1,078,640
Extraordinary income		
Gain on sale of fixed assets	19,357	5,304
Gain on sale of investment securities	—	—
Total extraordinary income	19,357	5,304
Extraordinary losses		
Loss on sale and retirement of fixed assets	163	495
Loss on valuation of investment securities	—	1,780
Total extraordinary losses	163	2,275
Net income before taxes and adjustments	494,720	1,081,668
Income, inhabitants and enterprise taxes	318,580	491,490
Income taxes-deferred	(176,087)	(136,986)
Total income taxes	142,493	354,503
Net income before minority shareholders profit and loss adjustments	352,227	727,164
Net income	352,227	727,164

(Consolidated Statement of Comprehensive Income)

(Unit: thousand yen)

	9 months Ended Sep 30, 2014	9 months Ended Sep 30, 2015
Net income before minority shareholders profit and loss adjustments	352,227	727,164
Other comprehensive income		
Difference from evaluation of other investment securities	(5,392)	2,903
Deferred gains or losses on hedges	(9,771)	4,628
Foreign currency translation adjustments	16,155	14,884
Adjustment pertaining to employees' retirement benefits	—	(17,111)
Total accumulated other comprehensive income	990	5,304
Quarterly comprehensive income	353,217	732,469
(Breakdown)		
Quarterly comprehensive income pertaining to parent's shareholders	353,217	732,469
Quarterly comprehensive income pertaining to minority shareholders	—	—

(3) Notes to Quarterly Consolidated Financial Statements

- Notes regarding the premise of a going concern: N.A.

- Notes on significant change in the amount of shareholders' equity: N.A.

- Segment Information, etc.

1. [9 months Ended September 30, 2014]

a. Information on the amounts of net sales and income by report segment

(Unit: thousand yen)

	Report Segment			
	Domestic Sales Companies	Domestic Manufacturing Companies	Overseas Subsidiaries	Total
Net sales				
Sales to outside customers	23,596,499	1,565,315	3,106,234	28,268,049
Inter-segmental sales or transfer	961,585	3,287,704	97,281	4,346,571
Total	24,558,085	4,853,020	3,203,515	32,614,621
Segment income	60,939	269,337	62,416	392,693

	Adjustment (*1)	Amount on Consolidated Financial Statements (*2)
Net sales		
Sales to outside customers	—	28,268,049
Inter-segmental sales or transfer	(4,346,571)	—
Total	(4,346,571)	28,268,049
Segment income/(loss)	44,212	436,905

(Notes) 1. Adjustment in Segment income of 44,212 thousand yen includes the inter-segmental transaction elimination of 64,876 thousand yen and Corporate allocation not allocated to each Report Segment of (20,664) thousand yen. The main portion of Corporate allocation is Selling, general and administrative expenses not attributable to Report Segments.

2. Segmental income is adjusted to Operating income on the quarterly Consolidated Statement of Income.

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

2. [9 months Ended September 30, 2015]

a. Information on the amounts of net sales and income by report segment

(Unit: thousand yen)

	Report Segment			
	Domestic Sales Companies	Domestic Manufacturing Companies	Overseas Subsidiaries	Total
Net sales				
Sales to outside customers	26,883,630	1,608,252	3,258,289	31,750,173
Inter-segmental sales or transfer	842,684	4,366,455	112,865	5,322,004
Total	27,726,314	5,974,707	3,371,155	37,072,178
Segment income	305,837	559,972	211,979	1,077,790,

	Adjustment (*1)	Amount on Consolidated Financial Statements (*2)
Net sales		
Sales to outside customers	—	31,750,173
Inter-segmental sales or transfer	(5,322,004)	—
Total	(5,322,004)	31,750,173
Segment income/(loss)	28,073	1,105,863

(Notes) 1. Adjustment in Segment income of 28,073 thousand yen includes the inter-segmental transaction elimination of 67,185 thousand yen and Corporate allocation not allocated to each Report Segment of (39,111) thousand yen. The main portion of Corporate allocation is Selling, general and administrative expenses not attributable to Report Segments.

2. Segmental income is adjusted to Operating income on the quarterly Consolidated Statement of Income.

b. Matters on change, etc. in Report Segment

(Change in report segment classification)

In our group-wide efforts on the strategic themes of “Enhancement and expansion of original products,” “Enhancement and expansion of overseas operations,” “Cultivation and lateral expansion of existing markets/customers,” and “Development of new markets/customers,” the Company integrated the Electronics Operation and the Machinery Operation to promote the development of new markets and the lateral expansion of existing markets.

With this integration, the previous two segments, “Electronic Equipment and Components” and “Manufacturing Equipment,” were integrated and renamed “Domestic Sales Companies,” and the previous “Domestic Subsidiaries” was also renamed “Domestic Manufacturing Companies,” as the manufacturing function to seek to strengthen and extend original products. With “Overseas Subsidiaries” in addition to these, which is working to accelerate the Group’s global business, the Company’s business segments are now classified into three segments.

The segment information for the current consolidated cumulative period disclosed was prepared based on the new report segment classification after change.

(Application of accounting standards, etc. regarding employees' retirement benefits)

As from the first quarter, the Company: (i) applied the Accounting Standards for Retirement Benefits (Corporate Accounting Standards No.26, May 17, 2014; hereinafter called "Retirement Benefits Accounting Standards") and the Application Guideline of the Accounting Standards for Retirement Benefits (Corporate Accounting Standards Application Guideline No.25, March 26, 2015; hereinafter called "Retirement Benefits Application Guideline") to the provisions stated in the body of Paragraph 35 of the Retirement Benefits Accounting Standards and that of Paragraph 67 of the Retirement Benefits Application Guideline; (ii) reviewed the calculation method for retirement benefit obligations and service costs; (iii) changed the period attribution method for expected retirement benefits from the period fixed amount based method to the benefit calculation formula based method; and (iv) changed the discount rate calculation method from the one based on the number of years approximated to the average remaining service years of employees to the one using a single weighted average discount rate reflecting the expected payment period of retirement benefits and the amount by such period.

There will be no effect of this change on the segment income.

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