

Financial Report for the 3-month Period Ended March 31, 2016 (Consolidated - Japanese Standards)

Company name: DAITO ELECTRON CO., LTD.
 Stock exchange listing: 1st Section of the Tokyo Stock Exchange
 Code number: 7609 URL: <http://www.daitron.co.jp/>
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Scheduled date of submitting quarterly statement: May 13, 2016

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 3-month period ended March 31, 2016 (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 belonging to parent shareholders	
	Mil. yen	%	Mil. yen	%	Mil. yen	%	Mil. yen	%
1Q/2016	11,040	(4.8)	510	(11.0)	485	(13.6)	261	(33.4)
1Q/2015	11,598	19.0	573	208.1	562	211.2	391	258.0

Note: Comprehensive income 1Q/2016: 120 million yen (74.4%) 1Q/2015: 470 million yen (—%)

	Quarterly net income per share	Diluted quarterly net income per share
	Yen	Yen
1Q/2016	23.51	—
1Q/2015	35.28	—

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
1Q/2016	30,321	13,021	42.9	1,172.51
FY2015	28,681	13,179	45.9	1,186.64

(Reference) Shareholders' equity 1Q/2016: 13,018 million yen FY2015: 13,176 million yen

2. Dividend payments

	Annual dividend payment (Yen)				
	1Q end	2Q end	3Q end	fiscal end	Total
FY2015	—	0.00	—	25.00	15.00
FY2016	—				
FY2016 (expected)		0.00	—	20.00	20.00

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

3. Consolidated earnings forecast for fiscal 2016 ending December 31, 2016

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

	Net sales		Operating income		Ordinary income		Quarterly net income belonging to parent shareholders		Net income per share
	Mil.yen	%	Mil.yen	%	Mil.yen	%	Mil.yen	%	Yen
2Q (cumulative)	23,000	4.5	900	(5.3)	900	(5.1)	530	(19.7)	47.73
Full year	46,500	7.6	1,650	7.0	1,650	7.3	1,020	(9.9)	91.86

(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 p.3 of the attached material "(3) Change in accounting principles, accounting estimates, and revised and restatements" under "2. Matters regarding summary information (Notes)."

(4) Number of outstanding shares at period-end (common shares)

- ① number of outstanding shares at period-end (including treasury stock)
 - 1Q 2016 : 11,155,979 shares
 - FY 2015 : 11,155,979 shares
- ② number of treasury stocks at period-end
 - 1Q 2016 : 52,854 shares
 - FY 2015 : 51,811 shares
- ③ average number of shares during period (cumulative)
 - 1Q 2016 : 11,103,637 shares
 - 1Q 2015 : 11,104,795 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 mentions of the future)

Please note that the statements concerning the future contained in this Report, including 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.

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1. Qualitative information on accounts for the current quarter

(1) Discussion regarding operating results

The Japanese economy during this quarter has remained weak with the stagnant consumer spending and cautious corporate attitude in production and facility investment activities impacted by exchange fluctuations and the low stock prices, etc., with all the effects of the government's economic policy and the monetary relaxation policy by the Bank of Japan seen in some part.

The global economy, too, is facing an uncertain future with a sense of stagnation increasing due to the slowing Chinese economy's growth and a downside risk in the recovery of the US economy.

In our electronics industry, supported by the strong production in the automobile electronic equipment field and the expanding production of the industrial robot related field, the sales of the Electronic Equipment and Components have been growing.

Under these circumstances, for the purpose of enhancing the development and production systems for products capitalizing on its comprehensive technology in wider fields including automobile and aircraft related in addition to the conventional ones, the Group launched the construction of a new factory (to be completed in November 2016) on the land newly purchased in Ichinomiya City, Aichi Prefecture.

In addition, the Company has decided to merge its two manufacturing subsidiaries and changed the trade name to Daitron Co., Ltd. as of January 1, 2017 (scheduled). With this merger, the Group is going to explore into new fields by uniting and activating the information, techniques, know-how, and other management resources of the three companies to further promote the "united manufacturing and sales strategy" with a stronger proposing capability developed based on the "integrated manufacturing and sales strategy" which has been pursued up to now.

As for the consolidated performance in the current first quarter, though it was almost as planned, both sales and profits fell below those of the previous year on the rebound of the sales of high-priced equipment in the previous first quarter.

Consequently, the Group obtained the following results in the current first quarter: net sales 11,040 million yen (down 4.8% from the same term last year); operating profit 510 million yen (down 11.0 million yen); ordinary income 485 million yen (down 13.6%); and net income belonging to parent shareholders 261 million yen (down 33.4%).

The outline of segmental performance is as shown below.

- Domestic Sales Companies

As for this segment, as both sales and profits fell below those of the previous year on the rebound of high-priced sales of the "Semiconductors and FPD Manufacturing Equipment" in the previous first quarter despite the generally good performance of manufacturing equipment such as the "Embedded System" and "Image-Related Equipment and Parts."

Consequently, net sales of this segment totaled 9,329 million yen (down 6.5% from the same term last year)

with a segmental (operating) income of 117 million yen (down 58.3% from the same term last year).

- Domestic Manufacturing Companies

In this segment, as for the performance of Daitron Technology Co., Ltd., dealing with manufacturing equipment, with the growth of the sales of processing and inspection equipment, etc. mainly in the Japanese and the Chinese markets associated with the increase in the demand for telecom-related semiconductor manufacturing equipment, both sales and profits exceeded the previous year's results. As for Daito Denso Co., Ltd., dealing with electronic equipment and components, with the strong sales of harnesses for industrial equipment and special connectors for ships and marine fields, sales and profits exceeded the previous year's results.

Consequently, net sales of this segment totaled 699 million yen (up 36.8% from the same term last year), most of which was the sales through the Group's domestic sales companies, and the total sales including inter-segmental sales amounted to 2,321 million yen (up 24.1%), with a segmental (operating) income of 343 million yen (up 80.6 million yen).

- Overseas Subsidiaries

As for this segment, the profits increased supported by the increased sales of the "Electronic Components Manufacturing Equipment" and the "Semiconductor Manufacturing Equipment" in North America and Thailand, while in the other areas in Asia, the profits decreased with the fall of sales of the "Electronic Components & Assembly Products," the "Power Supply Equipment," and "Image-Related Equipment."

Consequently, net sales of this segment totaled 1,011 million yen (down 8.4%) with a segmental (operating) income of 46 million yen (down 40.2 million yen).

(2) Discussion regarding financial conditions

(Assets)

Current assets at the end of this quarter amounted to 25,069 million yen (up 1,411 million yen from the previous fiscal-end), primarily due to the increases in cash and deposits by 634 million yen and notes and accounts receivable by 537 million yen, respectively. Fixed assets amounted to 5,251 million yen (up 227 million yen), as a result of the increase in tangible fixed assets by 345 million yen despite the decrease in investments and other assets by 118 million yen.

Consequently, the total assets stood at 30,321 million yen, up 1,639 million yen from the end of the previous fiscal year.

(Liabilities)

Current liabilities at the end of this quarter amounted to 13,537 million yen (up 1,232 million yen from the previous fiscal-end), primarily due to the increase in short-term loans by 940 million yen. Fixed liabilities amounted to 3,761 million yen (up 564 million yen) primarily due to the increase in long-term loans by 540 million yen.

Consequently, the total liabilities stood at 17,299 million yen, up 1,797 million yen from the end of the previous fiscal year.

(Net assets)

Total net assets at the end of this quarter amounted to 13,021 million yen (down 158 million yen from the

previous fiscal-end), primarily due to the dividend of surplus of 277 million yen and the decrease in difference from evaluation of other investment securities by 106 million yen despite the posting of 261 million yen of quarterly net income belonging to parent shareholders.

Consequently, the shareholders' equity ratio stood at 42.9%, down 3.0 point from that in the end of the previous fiscal year.

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

There is no change from the consolidated earnings forecasts contained in the "Financial Report for the 12-month Period Ended December 31, 2015" announced on February 5, 2016. Please note that the forecasts reflect our views based on currently available information and that actual results may differ materially depending on various factors that may arise in the future. When there arises any possibility of revising the forecasted earnings, it will be disclosed as soon as possible.

2. Matters regarding summary information (Notes)

(1) Change in significant subsidiaries during the quarter: N.A.

(2) Application of accounting procedures specially applicable to preparation of quarterly consolidated financial statements: N.A.

(3) Change in accounting principles, change in accounting estimates, and restatements:

(Application of accounting standards, etc. for business combination)

Applying the Accounting Standards for Business Combination (Corporate Accounting Standards No.21, September 13, 2015; hereinafter called "Business Combination Accounting Standards"), the Accounting Standard for Consolidated Financial Statements (Corporate Accounting Standards No.22, September 13, 2015; hereinafter called "Consolidated Accounting Standards"), and the Accounting Standard for Business Divestitures (Corporate Accounting Standards No.7, September 13, 2015; hereinafter called "Business Divestitures Accounting Standards") as from the current first quarter, the Company has changed the calculation method to that of posting as capital surplus the differences arising from a change in the equity interests of the Company in its subsidiary over which the control is continued, as well as that of posting the acquisition related expenses as the costs in the period in which such expenses were incurred. As for the business combination to be implemented at or after the beginning of the current first quarter, the calculation method has been changed to the one reflecting the reviewed allocation of acquisition costs by determining the tentative accounting procedure in the consolidated financial statements for the quarter to which the date of the business combination belongs. In addition, the presentations of Quarterly net income, etc. were changed, and that of Minority interests was changed to Non-controlling shareholders' interests. To reflect these changes in presentations, the consolidated financial statements for the previous first quarter and the previous accounting period have been reclassified.

The Company applies the Business Combination Accounting Standards, etc. in accordance with the transitional treatments set forth in Paragraph 58-2 (4) of the Business Combination Accounting Standards, Paragraph 44-5 (4) of the Consolidated Accounting Standards, and Paragraph 57-4 (4) of the Business Divestitures Accounting Standards from the beginning of the current first quarter into the future.

There will be no effect of these changes on profits and losses.

(4) Additional information

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

The Act for Partial Revision of the Income Tax Act (Act No. 15 of 2016) and the Act for Partial Revision of the Local Tax Act (Act No. 13 of 2016) were promulgated on March 31, 2016, and the tax rates, etc. will be lowered from the accounting year commencing on or after April 1, 2016. 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 35.6% to: (i) 33.1% for the temporary differences expected to disappear in the accounting year commencing on January 1, 2016; (ii) 30.9% for the temporary differences expected to disappear in the accounting years commencing on January 1, 2017 and January 1, 2018; and (iii) 30.6% for the temporary differences expected to disappear in the accounting year commencing on January 1, 2019.

The effect of this tax rate change will be minor.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Unit: thousand yen)

	at December 31, 2015	at March 31, 2016
Assets		
Current assets		
Cash and deposits	6,281,111	6,915,333
Notes and accounts receivable - Trade	11,182,946	11,720,933
Electronically recorded monetary claims	2,387,438	2,381,444
Goods and products	1,604,495	1,775,867
Work in process	1,383,590	1,214,053
Raw materials	339,710	282,837
Other current assets	482,711	781,991
Allowance for doubtful accounts	(3,820)	(2,621)
Total current assets	23,658,183	25,069,839
Fixed assets		
Tangible fixed assets	3,172,584	3,517,807
Intangible fixed assets	81,866	82,741
Investments and other assets		
Other investments and other assets	1,836,422	1,717,837
Allowance for doubtful accounts	(67,074)	(66,632)
Total investments and other assets	1,769,348	1,651,204
Total fixed assets	5,023,798	5,251,753
Total assets	28,681,982	30,321,592

	at December 31, 2015	at March 31, 2016
Liabilities		
Current liabilities		
Notes and accounts payable - trade	(*2) 6,701,389	6,884,502
Electronically recorded monetary obligation	3,530,209	3,396,096
Short-term loans payable	100,000	1,040,000
Long-term loans payable due within one year	66,660	206,656
Accrued Income taxes, etc.	291,006	252,888
Allowance for bonuses	57,095	399,304
Other allowance	39,845	50,852
Other current liabilities	1,492,154	1,307,624
Total current liabilities	<u>12,305,058</u>	<u>13,537,924</u>
Fixed liabilities		
Long-term loans payable	838,905	1,378,911
Liabilities pertaining to employees' retirement benefits	2,215,662	2,251,407
Asset retirement obligation	48,292	48,476
Other fixed liabilities	170,766	82,990
Total fixed liabilities	<u>3,196,956</u>	<u>3,761,785</u>
Total liabilities	<u>15,502,014</u>	<u>17,299,710</u>
Net assets		
Shareholders' equity		
Common stock	2,200,708	2,200,708
Capital surplus	2,482,896	2,482,896
Retained earnings	8,242,070	8,225,482
Treasury stock	(19,882)	(20,611)
Total shareholders' equity	<u>12,905,793</u>	<u>12,888,475</u>
Accumulated other comprehensive income		
Difference from evaluation of other investment securities	422,229	316,007
Deferred gains or losses on hedges	(1,176)	2,259
Foreign currency translation adjustments	6,194	(36,324)
Accumulated adjustment pertaining to employees' retirement benefits	(156,439)	(151,902)
Total accumulated other comprehensive income	<u>270,807</u>	<u>130,039</u>
Minority interests	3,366	3,366
Total net assets	<u>13,179,967</u>	<u>13,021,881</u>
Total liabilities and net assets	<u>28,681,982</u>	<u>30,321,592</u>

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

(Consolidated Statement of Income)

(Unit: thousand yen)

	3 months Ended March 31, 2015	3 months Ended March 31, 2016
Net sales	11,598,872	11,040,241
Cost of sales	9,107,978	8,546,666
Gross profit	2,490,893	2,493,574
Selling, general and administrative expenses	1,917,557	1,983,531
Operating income	573,336	510,043
Non-operating income		
Interest income	1,551	907
Dividend income	896	935
Insurance dividend	11,909	13,029
Other non-operating income	5,843	4,852
Total non-operating income	20,201	19,725
Non-operating expenses		
Interest expense	4,704	6,143
Loss on sale of trade notes	1,083	841
Foreign exchange loss	21,583	32,835
Other non-operating losses	3,886	4,105
Total non-operating expenses	31,259	43,926
Ordinary income	562,278	485,842
Extraordinary income		
Gain on sale of fixed assets	177	305
Total extraordinary income	177	305
Extraordinary losses		
Loss on sale and retirement of fixed assets	46	1
Total extraordinary losses	46	1
Net income before taxes and adjustments	562,409	486,147
Income, inhabitants and enterprise taxes	285,428	311,751
Income taxes-deferred	(114,841)	(86,619)
Total income taxes	170,587	225,131
Quarterly net income	391,822	261,015
Quarterly net income belonging to parent shareholders	391,822	261,015

(Consolidated Statement of Comprehensive Income)

(Unit: thousand yen)

	3 months Ended	3 months Ended
	March 31, 2015	March 31, 2016
Quarterly net income	391,822	261,015
Other comprehensive income		
Difference from evaluation of other securities	79,193	(106,221)
Deferred gains or losses on hedges	4,940	3,436
Foreign currency translation adjustments	20,825	(42,519)
Adjustment pertaining to employees' retirement benefits	(26,552)	4,537
Total other comprehensive income	(78,406)	(140,767)
Quarterly comprehensive income	470,229	120,247
(breakdown)		
Quarterly comprehensive income pertaining to parent stock	470,229	120,247
Quarterly comprehensive income pertaining to non-controlling shareholders	—	—

(3) Notes regarding Quarterly Consolidated Financial Statements

(Notes regarding premises of going concern) N.A.

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

(Segment information, etc.)

Segment information

[3 months Ended March 31, 2015]

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

(Unit: thousand yen)

	Report Segment			
	Domestic Sales Companies	Domestic Manufacturing Companies	Overseas Subsidiaries	Total
Net sales				
- Sales to outside customers	9,983,351	511,065	1,104,454	11,598,872
- Inter-segmental sales or transfer	349,985	1,359,601	48,604	1,758,191
Total	10,333,337	1,870,666	1,153,059	13,357,063
Segment income	280,826	190,081	78,342	549,251

	Adjustment (*1)	Amount on Consolidated Financial Statements (*2)
Net sales		
- Sales to outside customers	—	11,598,872
- Inter-segmental sales or transfer	(1,758,191)	—
Total	(1,758,191)	11,598,872
Segment income	24,084	573,336

(Notes) 1. Adjustment in Segment income of 24,084 thousand yen includes the inter-segmental transaction elimination of 38,098 thousand yen and Corporate allocation not allocated to each Report Segment of (14,014) 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.

[3 months Ended March 31, 2016]

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

(Unit: thousand yen)

	Report Segment			
	Domestic Sales Companies	Domestic Manufacturing Companies	Overseas Subsidiaries	Total
Net sales				
- Sales to outside customers	9,329,723	699,299	1,011,217	11,040,241
- Inter-segmental sales or transfer	284,318	1,622,131	24,539	1,930,988
Total	9,614,041	2,321,431	1,035,756	12,971,230
Segment income	117,116	343,341	46,848	507,306

	Adjustment (*1)	Amount on Consolidated Financial Statements (*2)
Net sales		
- Sales to outside customers	—	11,040,241
- Inter-segmental sales or transfer	(1,930,988)	—
Total	(1,930,988)	11,040,241
Segment income	2,737	510,043

(Notes) 1. Adjustment in Segment income of 2,737 thousand yen includes the inter-segmental transaction elimination of 13,595 thousand yen and Corporate allocation not allocated to each Report Segment of (10,858) 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.