

Financial Report for the 3-month Period Ended September 30, 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: November 14, 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 9-month period ended September 30, 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	%
3Q/2016	32,731	3.1	1,570	42.1	1,502	39.3	923	27.0
3Q/2015	31,750	12.3	1,105	153.1	1,078	126.8	727	106.4

Note: Comprehensive Income 3Q/2016: 733 million yen (0.1%) FY2015: 732 million yen (107.4%)

	Quarterly net income per share		Diluted quarterly net income per share	
	Yen		Yen	
3Q/2016	83.16		—	
3Q/2015	65.48		—	

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
3Q/2016	32,565	13,635	41.9	1,227.75
FY2015	28,681	13,179	45.9	1,186.64

(Reference) Shareholders' equity 3Q/2016: 13,631 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	25.00
FY2016	—	0.00	—	—	—
FY2016 (expected)	—	—	—	25.00	25.00

(Note) Revision of the most recently announced dividend payment expectation: Revised

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
Full year	44,500	3.0	1,830	18.6	1,750	13.9	1,080	(4.6)	97.27

(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 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 in accounting principles associated with revision in accounting standards, 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.4 of the attached material "(3) Change in accounting principles, accounting estimates, 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)
 - 3Q 2016 : 11,155,979 shares
 - FY 2015 : 11,155,979 shares
- ② number of treasury stocks at period-end
 - 3Q 2016 : 52,917 shares
 - FY 2015 : 51,811 shares
- ③ average number of shares during period (cumulative)
 - 3Q 2016 : 11,103,259 shares
 - 3Q 2015 : 11,104,589 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 these three quarters remained with a sense of uncertainty about the future impacted by continually stagnant consumer spending, radical foreign exchange fluctuations, and the low stock prices, etc., with all the recovery trend of corporate performance backed by the effects of the government's economic policy and the monetary relaxation policy by the Bank of Japan.

Globally, the US economy remained on a recovery path, while there have been concerns over the future with the issue of UK's withdrawal from the European Union and a deceleration trend in the economic growth of China and other newly emerging countries in Asia.

In our electronics industry, demand for electronic equipment and parts as well as manufacturing equipment increased in the automobile, industrial robot, and IoT related fields, while the growth in the smartphone, PC, tablet related fields slowed down..

Under such circumstances, the Company succeeded in increasing the sales percentage of original products, which are profitable, as a result of the efforts directed toward our four focus management measures: "Enhancement and expansion of original products," "Enhancement and expansion of overseas operations," "Cultivation and lateral expansion of existing markets and customers," and "Development of new markets and customers" during this cumulative third quarter.

Consequently, the Group obtained the following results in the current cumulative third quarter: net sales 32,731 million yen (up 3.1% from the same term last year); operating profit 1,570 million yen (up 42.%); ordinary income 1,502 million yen (up 39.3%); and net income belonging to parent shareholders 923 million yen (up 27.0%).

The outline of segmental performance is as shown below.

- Domestic Sales Companies

As for this segment, net sales exceeded those of the same term of the previous year supported by the growth in the sales of cameras and peripherals of the "Image-Related Equipment and Parts," which is associated with the activated organic EL related market, embedded board computers of the "Embedded System," which is associated with the increased demand for control equipment and measuring equipment, etc., and video conference systems of the "Information System," which is associated with the renewal of customers' existing equipment, while profits also exceeded those in the same term of the previous year largely with the profitability in manufacturing equipment related products improved in addition to the effect on increased revenue.

Consequently, net sales of this segment totaled 27,476 million yen (up 2.2% from the same term last year) with a segmental (operating) income of 460 million yen (up 50.5% 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 for the Japanese and the north American markets associated with the increase in the demand for semiconductor manufacturing equipment for telecom-related devices, both sales and profits exceeded the previous year's results largely. As for Daito

Denso Co., Ltd., dealing with electronic equipment and components, with the strong sales of harnesses for the aerospace and defense fields as well as special connectors for the ships and marine fields, sales and profits exceeded the previous year's results.

Consequently, net sales of this segment totaled 2,027 million yen (up 26.1% from the same term last year), a large percentage of which was through the Group's domestic sales companies, and the total sales including inter-segmental sales amounted to 6,468 million yen (up 8.3%), with a segmental (operating) income of 924 million yen (up 65.2 million yen).

- Overseas Subsidiaries

As for this segment, despite the decreased sales of the "Electronic Components & Assembly Products" and the "Power Supply Equipment" mainly in the Chinese market, both the sales and profits exceeded the previous years' on a local currency basis supported by increased sales of the "Image-Related Equipment" and the "Electronic Components Manufacturing Equipment" in North America and part of the Asian market. However, due to the rapidly progress of yen appreciation, both the sales and profits in yen terms fell below the previous years'.

Consequently, net sales of this segment totaled 3,228 million yen (down 0.9%) with a segmental (operating) income of 190 million yen (down 10.1 %).

(2) Discussion regarding financial conditions

(Assets)

Current assets at the end of this quarter amounted to 26,686 million yen (up 3,028 million yen from the previous fiscal-end), primarily due to the increases in cash and deposits by 1,824 million yen, advance payments included in other current assets by 1,177 million yen, and goods and products by 372 million yen, respectively. Fixed assets amounted to 5,878 million yen (up 855 million yen), mainly as a result of the increase in tangible fixed assets by 931 million yen.

Consequently, the total assets stood at 32,565 million yen, up 3,883 million yen from the end of the previous fiscal year.

(Liabilities)

Current liabilities at the end of this quarter amounted to 16,020 million yen (up 3,714 million yen from the previous fiscal-end), primarily due to the increases in advance payments included in other current liabilities by 1,174 million yen, long-term loans due within one year by 928 million yen, electronically recorded monetary obligations by 688 million yen, and short-term loans by 580 million yen, respectively. Fixed liabilities amounted to 2,910 million yen (down 286 million yen) primarily due to the decrease in long-term loans by 352 million yen.

Consequently, the total liabilities stood at 18,930 million yen, up 3,428 million yen from the end of the previous fiscal year.

(Net assets)

Total net assets at the end of this quarter amounted to 13,635 million yen (up 455 million yen from the previous fiscal-end), primarily due to the increase in retained earnings by 645 million yens.

Consequently, the shareholders' equity ratio stood at 41.9%, down 4.0 point from that in the end of the previous fiscal year.

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

Based on the performance in the current quarter and the recent order environment, etc., the Company has revised the consolidated earnings forecast announced on February 5, 2016 as follows:

<Revised consolidated forecast for fiscal 2016 from January 1, 2016 to December 31, 2016>

	Net sales (mil. yen)	Operating income (mil. yen)	Ordinary income (mil. yen)	Net income attributable to parent shareholders (mil. yen)	Quarterly net income per share (yen)
Previous forecast (A)	46,500	1,650	1,650	1,020	47.73
Actual result (B)	44,500	1,830	1,750	1,080	51.93
Difference (B-A)	(2,000)	180	100	60	—
Rate of change (%)	(4.3)	10.9	6.1	5.9	—
(Reference) Results of fiscal 2015	43,214	1,542	1,537	1,131	101.91

Net sales are likely to fall below initially forecasted with the prospect that part of the transactions which were expected to be recorded around the period-end will be carried over to next year, in addition to the decrease in those of overseas subsidiaries in yen terms with the high-yen trend growing more than anticipated during the current quarter.

Profits are, despite the impact of the decreased sales as mentioned above, likely to exceed the initial forecast with the increased sales percentage of our original products, which are profitable, as well as the effects of the cost reducing measures.

As for the dividend forecast, based on the expectation of improvement in profits as explained above, we have increased the year-end dividend forecast by 5 yen and revised from 20 yen to 25 yen per share. For the detail, please refer to the "Announcement of Revision (Increase) of Period-End Dividend Forecast for FY 2016" announced on November 4, 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, 2013; hereinafter called "Business Combination Accounting Standards"), the Accounting Standard for Consolidated Financial Statements (Corporate Accounting Standards No.22, September 13, 2013; hereinafter called "Consolidated Accounting Standards"), and the Accounting Standard for Business Divestitures (Corporate Accounting Standards No.7, September 13, 2013; 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 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 consolidated cumulative third 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 September 30, 2016
Assets		
Current assets		
Cash and deposits	6,281,111	8,105,534
Notes and accounts receivable - Trade	11,182,946	9,854,327
Electronically recorded monetary claims	2,387,438	3,475,024
Goods and products	1,604,495	1,976,926
Work in process	1,383,590	1,103,495
Raw materials	339,710	327,727
Other current assets	482,711	1,845,546
Allowance for doubtful accounts	(3,820)	(1,601)
Total current assets	23,658,183	26,686,982
Fixed assets		
Tangible fixed assets	3,172,584	4,104,557
Intangible fixed assets	81,866	74,631
Investments and other assets		
Other investments and other assets	1,836,422	1,710,911
Allowance for doubtful accounts	(67,074)	(11,140)
Total investments and other assets	1,769,348	1,699,771
Total fixed assets	5,023,798	5,878,959
Total assets	28,681,982	32,565,942

	at December 31, 2015	at September 30, 2016
Liabilities		
Current liabilities		
Notes and accounts payable - trade	6,701,389	6,617,176
Electronically recorded monetary obligation	3,530,209	4,219,025
Short-term loans payable	100,000	680,000
Long-term loans payable due within one year	66,660	995,566
Accrued Income taxes, etc.	291,006	449,931
Allowance for bonuses	57,095	468,690
Other allowance	39,845	70,257
Other current liabilities	1,518,852	2,519,354
Total current liabilities	<u>12,305,058</u>	<u>16,020,002</u>
Fixed liabilities		
Long-term loans payable	838,905	486,673
Liabilities pertaining to employees' retirement benefits	2,215,662	2,311,131
Asset retirement obligation	48,292	48,844
Other fixed liabilities	94,096	64,190
Total fixed liabilities	<u>3,196,956</u>	<u>2,910,839</u>
Total liabilities	<u>15,502,014</u>	<u>18,930,842</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	8,887,777
Treasury stock	(19,882)	(20,605)
Total shareholders' equity	<u>12,905,793</u>	<u>13,550,731</u>
Accumulated other comprehensive income		
Difference from evaluation of other investment securities	422,229	355,238
Deferred gains or losses on hedges	(1,176)	(2,561)
Foreign currency translation adjustments	6,194	(128,846)
Accumulated adjustment pertaining to employees' retirement benefits	(156,439)	(142,827)
Total accumulated other comprehensive income	<u>270,807</u>	<u>81,002</u>
Minority interests	3,366	3,366
Total net assets	<u>13,179,967</u>	<u>13,635,100</u>
Total liabilities and net assets	<u>28,681,982</u>	<u>32,565,942</u>

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

(Consolidated Statement of Income)

(Unit: thousand yen)

	9 months Ended September 30, 2015	9 months Ended September 30, 2016
Net sales	31,750,173	32,731,900
Cost of sales	24,729,825	25,223,629
Gross profit	7,020,347	7,508,270
Selling, general and administrative expenses	5,914,484	5,937,327
Operating income	1,105,863	1,570,943
Non-operating income		
Interest income	3,727	1,974
Dividend income	12,164	10,797
Insurance dividend	11,909	13,029
Other non-operating income	31,334	16,044
Total non-operating income	59,135	41,845
Non-operating expenses		
Interest expense	14,806	17,146
Loss on sale of trade notes	2,883	2,000
Foreign exchange loss	53,190	78,431
Other non-operating losses	15,478	12,280
Total non-operating expenses	86,359	109,859
Ordinary income	1,078,640	1,502,929
Extraordinary income		
Gain on sale of fixed assets	5,304	1,026
Gain on sale of investment securities	0	—
Total extraordinary income	5,304	1,026
Extraordinary losses		
Loss on sale and retirement of fixed assets	495	245
Valuation loss on investment securities	1,780	—
Total extraordinary losses	2,275	245
Net income before taxes and adjustments	1,081,668	1,503,710
Income, inhabitants and enterprise taxes	491,490	718,496
Income taxes-deferred	(136,986)	(138,096)
Total income taxes	354,503	580,399
Quarterly net income	727,164	923,310
Quarterly net income belonging to parent shareholders	727,164	923,310

(Consolidated Statement of Comprehensive Income)

(Unit: thousand yen)

	9 months Ended September 30, 2015	9 months Ended September 30, 2016
Net income before taxes and adjustments	727,164	923,310
Other comprehensive income		
Difference from evaluation of other securities	2,903	(66,990)
Deferred gains or losses on hedges	4,628	(1,384)
Foreign currency translation adjustments	14,884	(135,041)
Adjustment pertaining to employees' retirement benefits	(17,111)	13,611
Total other comprehensive income	5,304	(189,805)
Quarterly comprehensive income	732,469	733,505
(breakdown)		
Quarterly comprehensive income pertaining to parent stock	732,469	733,505
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

[9 months Ended September 30, 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	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	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. Information on Impairment loss on fixed assets or Goodwill, etc. by Report Segment: N.A.

[9 months Ended September 30, 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	27,476,004	2,027,735	3,228,161	32,731,900
- Inter-segmental sales or transfer	903,748	4,440,545	91,848	5,436,142
Total	28,379,753	6,468,280	3,320,010	38,168,043
Segment income	460,313	924,812	190,639	1,575,765,

	Adjustment (*1)	Amount on Consolidated Financial Statements (*2)
Net sales		
- Sales to outside customers	—	32,731,900
- Inter-segmental sales or transfer	(5,436,142)	—
Total	(5,436,142)	32,731,900
Segment income	(4,822)	1,570,943

(Notes) 1. Adjustment in Segment income of (4,822) thousand yen includes the inter-segmental transaction elimination of 28,391 thousand yen and Corporate allocation not allocated to each Report Segment of (33,213) 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.