

Financial Report for the 6-month Period Ended June 30, 2017 (Consolidated - Japanese Standards)

Company name: DAITRON CO., LTD.
 Stock exchange listing: 1st Sections of the Tokyo Stock Exchange
 Code number: 7609 URL: <http://www.daitron.co.jp/>
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Scheduled date of submitting quarterly statement: August 10, 2017
 Scheduled date of starting dividend payment: September 8, 2017

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, 2017 (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 attributable to parent shareholders	
	Mil. yen	%	Mil. yen	%	Mil. yen	%	Mil. yen	%
2Q/2017	25,410	16.3	1,347	24.4	1,383	37.5	970	68.3
2Q/2016	21,850	(0.7)	1,083	14.1	1,005	6.1	576	(12.7)

Note: Comprehensive income 2Q/2017: 1,054 million yen (195.0%) 2Q/2016: 357 million yen (-59.8%)

	Quarterly net income per share	Diluted quarterly net income per share
	Yen	Yen
2Q/2017	87.84	—
2Q/2016	51.93	—

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/2017	32,787	14,562	44.4	1,319.73
FY2016	32,068	13,914	43.4	1,252.94

(Reference) Shareholders' equity 2Q/2017: 13,255 million yen FY2016: 13,176 million yen

2. Dividend payments

	Annual dividend payment (Yen)				
	1Q end	2Q end	3Q end	fiscal end	Total
FY2016	—	0.00	—	30.00	30.00
FY2017	—	15.00	—	—	—
FY2017 (expected)	—	—	—	20.00	35.00

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

3. Consolidated operating estimates for fiscal 2017 ending December 31, 2017

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

	Net sales		Operating income		Ordinary income		Net income attributable to parent shareholders		Net income per share
	Mil.yen	%	Mil.yen	%	Mil.yen	%	Mil.yen	%	Yen
Full year	50,000	11.3	2,270	18.8	2,300	23.4	1,620	33.1	146.75

(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 and 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

(4) Number of outstanding shares (common shares)

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

2Q 2017 : 11,155,979 shares

FY 2016 : 11,155,979 shares

② number of treasury stocks at period-end

2Q 2017 : 124,103 shares

FY 2016 : 53,027 shares

③ average number of shares during period (quarterly cumulative)

2Q 2017 : 11,046,821 shares

2Q 2016 : 11,103,352 shares

* This Quarterly Financial Report is not subject to the quarterly review procedures.

* 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.

(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 Friday, August 8, 2017.

The support explanatory material used on the day will be shown on our website as soon as possible after such meeting.

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1. Qualitative information on accounts for the current quarter

(1) Discussion regarding business results

The Japanese economy during the cumulative second quarter remained on a gradual recovery trend in general with corporate earnings and the employment and income environments improved.

The global economy continued uncertain about the future with the concerns over the impacts of the US protectionist policies, the UK withdrawal issue from EU, and the geopolitical risks in the Middle East and East Asia.

In our electronics industry, production activities and facility investments remained firm in the automobile industry and the industrial robot and IoT related fields.

In these circumstances, the Group worked on sales expansion of original products, development of new markets, and expansion of overseas operations under the 9th Mid-Term Management Plan for the four years starting 2017 toward 2020.

Consequently, the Group obtained the following results in the current cumulative second quarter: net sales 25,410 million yen (up 16.3% from the same term last year); operating income 1,347 million yen (up 24.4%); ordinary income 1,383 million yen (up 37.5%); and quarterly net income attributable to parent shareholders 970 million yen (up 68.3%).

The outline of segmental performance is as follows:

The Company merged Daitron Technology Co., Ltd. and Daito Denso Co., Ltd., which was its wholly-owned consolidated subsidiaries, as of January 1, 2017.

With this merger, the names of the Report Segments have been changed as from the first quarter, from the former "Domestic Sales Companies" to "Domestic Sales Business," and from "Domestic Manufacturing Companies" to "Domestic Manufacturing Business," respectively.

In addition, the expense allocation standards were reviewed and the calculation method for report segment income was changed. On account of these, in the year-on-year comparison of each segment, the amounts of the same term in the previous year recalculated based on the new expense allocation standards are used.

- Domestic Sales Business

As for this segment, both sales and profits exceeded those of the same term last year buoyed by the good sales of connectors and harnesses of the "Electronic Components & Assembly Products," cameras and lenses of "Image-Related Equipment and Parts," and embedded board computers of the "Embedded System," respectively, for production facility manufacturers of communications and automobile electronic parts supported by the increasing demand for them, in addition to the strong sales of uninterruptible power systems (UPS) for data centers.

Consequently, net sales of this segment totaled 21,071 million yen (up 14.2% from the same term last year) with a segmental (operating) income of 837 million yen (up 149.8%).

- Domestic Manufacturing Business

In this segment, as for the performance of the equipment business operation dealing with manufacturing equipment, both sales and profits fell below those of the same term last year with the sales of electronic parts manufacturing equipment to electronic parts manufacturers decreased. As for the component business operation dealing with electronic equipment and components, both sales and profits fell below those of the previous year with the sales of special harnesses and special connectors decreased.

Consequently, net sales of this segment totaled 1,318 million yen (down 4.7% from the same term last year), total sales including inter-segmental sales amounted to 3,716 million yen (down 18.0%), with the segmental (operating) income of 249 million yen (down 63.2%).

- Overseas Subsidiaries

As for this segment, both sales and profits exceeded those of the same term last year supported by the good sales of the "Electronic Components & Assembly Products" in the North American market as well as the increased sales of the "Image-Related Equipment and Parts," "Electronic Components & Assembly Products," and "Semiconductors" in the Chinese, Korean, and Southeast Asian markets.

Consequently, net sales of this segment totaled 3,020 million yen (up 49.5% from the same term last year) with a segmental (operating) income of 309 million yen (up 228.3 million yen).

(2) Discussion regarding financial conditions

- Assets, liabilities, and net assets

(Assets)

Current assets at the end of this quarter amounted to 26,523 million yen (up 534 million yen from the previous fiscal-end), primarily due to the increases in goods and products by 548 million yen and work in process by 568 million yen, respectively, despite the decrease in advance payment included in other current assets by 619 million yen. Fixed assets amounted to 6,264 million yen (up 184 million yen), as a result of the increases in tangible fixed assets by 77 million yen and investments and other assets by 119 million yen.

Consequently, the total assets stood at 32,787 million yen, up 719 million yen from the end of the previous fiscal year.

(Liabilities)

Current liabilities at the end of this quarter amounted to 14,955 million yen (up 10 million yen from the previous fiscal-end), primarily due to the increase in notes and accounts payable by 1,144 million yen despite the decreases in advance received included in other current liabilities by 835 million yen and short-term loans payable by 100 million yen. Fixed liabilities amounted to 3,269 million yen (up 60 million yen) primarily due to the increase in liabilities pertaining to employees' retirement benefits by 38 million yen.

Consequently, the total liabilities stood at 18,225 million yen, up 71 million yen from the end of the previous fiscal year.

(Net assets)

Total net assets at the end of this quarter amounted to 14,562 million yen (up 647 million yen from the previous fiscal-end), primarily due to quarterly net income attributable to parent shareholders of 970 million yen, dividend

of surplus of 333 million yen, and purchase of treasury stock of 73 million yen.

Consequently, the shareholders' equity ratio stood at 44.4%, up 1.0 point from the end of the previous fiscal year.

- Cash flow

The balance of cash and cash equivalents at the end of this cumulative second quarter (hereinafter called "Fund") stood at 6,397 million yen, down 330 million yen from the previous fiscal-end.

The status of each cash flow during these two quarters and their factors are as follows:

(Cash flows from operating activities)

The Fund increased 345 million yen (977 million yen decrease in the same term last year) as a result of operating activities: the major increasing factors are the increases in net income before taxes and adjustments of 1,383 million yen and the increase in trade notes and accounts payable of 1,147 million yen, and the major decreasing factor is the increase in advance payment of 835 million yen.

(Cash flows from investing activities)

The Fund decreased 114 million yen (636 million yen decrease in the same term last year) as a result of investing activities: the major decreasing factor is the payment for acquisition of tangible fixed assets of 111 million yen.

(Cash flows from financing activities)

The Fund decreased 533 million yen (328 million yen increase in the same term last year) as a result of financing activities: the major decreasing factors are dividends paid of 333 million yen and repayment of long-term loans of 103 million yen.

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

In our electronics industry, the automobile, industrial robot, and IoT related markets continuing strong, and the demand in the industrial machinery and equipment fields, our main markets, is also expected to remain firm.

Under such circumstances and based on the earnings of these two quarters, we revised the original consolidated earnings forecast and dividend forecast for fiscal 2017 contained in the Financial Report for the 12-month Period Ended December 31, 2016 announced on February 7, 2017.

For details, please refer to the "Announcement of Revisions of Business Forecast and Dividend Forecast for FY 2017" announced today (on August 2, 2017).

2. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Unit: thousand yen)

	at December 31, 2016	at June 30, 2017
Assets		
Current assets		
Cash and deposits	6,757,712	6,427,424
Notes and accounts receivable - Trade	10,720,663	10,714,796
Electronically recorded monetary claims	4,207,404	4,601,917
Goods and products	1,651,418	2,200,398
Work in process	1,052,211	1,620,812
Raw materials	329,788	352,380
Other current assets	1,273,131	607,801
Allowance for doubtful accounts	(2,782)	(1,750)
Total current assets	25,989,547	26,523,778
Fixed assets		
Tangible fixed assets	4,096,067	4,173,489
Intangible fixed assets	81,071	69,128
Investments and other assets		
Other investments and other assets	1,908,581	2,028,118
Allowance for doubtful accounts	(6,569)	(6,689)
Total investments and other assets	1,902,011	2,021,429
Total fixed assets	6,079,150	6,264,046
Total assets	32,068,697	32,787,825

	at June 30, 2016	at June 30, 2017
Liabilities		
Current liabilities		
Notes and accounts payable - trade	5,864,912	7,009,855
Electronically recorded monetary obligation	4,832,972	4,824,077
Short-term loans payable	100,000	—
Long-term loans payable due within one year	978,901	945,571
Accrued Income taxes, etc.	378,810	411,020
Allowance for bonuses	73,706	83,746
Other allowance	78,095	71,793
Other current liabilities	2,637,797	1,609,637
Total current liabilities	<u>14,945,194</u>	<u>14,955,702</u>
Fixed liabilities		
Long-term loans payable	451,674	481,676
Liabilities pertaining to employees' retirement benefits	2,652,744	2,691,359
Asset retirement obligation	46,208	46,575
Other fixed liabilities	58,163	50,080
Total fixed liabilities	<u>3,208,790</u>	<u>3,269,691</u>
Total liabilities	<u>18,153,985</u>	<u>18,225,393</u>
Net assets		
Shareholders' equity		
Common stock	2,200,708	2,200,708
Capital surplus	2,482,918	2,482,918
Retained earnings	9,181,548	9,818,848
Treasury stock	(20,764)	(94,336)
Total shareholders' equity	<u>13,844,410</u>	<u>14,408,139</u>
Accumulated other comprehensive income		
Difference from evaluation of other investment securities	481,544	592,773
Deferred gains or losses on hedges	3,046	(1,196)
Foreign currency translation adjustments	(10,269)	(56,042)
Accumulated adjustment pertaining to employees' retirement benefits	(407,386)	(384,608)
Total accumulated other comprehensive income	<u>66,935</u>	<u>150,926</u>
Minority interests	3,366	3,366
Total net assets	<u>13,914,712</u>	<u>14,562,431</u>
Total liabilities and net assets	<u>32,068,697</u>	<u>32,787,825</u>

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

(Consolidated Statement of Income)

(Unit: thousand yen)

	6 months Ended June 30, 2016	6 months Ended June 30, 2017
Net sales	21,850,803	25,410,482
Cost of sales	16,782,343	19,736,945
Gross profit	5,068,460	5,673,537
Selling, general and administrative expenses	*3,984,994	*4,326,152
Operating income	1,083,465	1,347,385
Non-operating income		
Interest income	1,406	1,055
Dividend income	7,718	8,514
Insurance dividend	13,029	13,735
Foreign exchange profit	—	27,503
Other non-operating income	8,854	16,264
Total non-operating income	31,009	67,072
Non-operating expenses		
Interest expense	11,806	11,218
Loss on sale of trade notes	1,339	839
Sales discount	6,485	6,695
Foreign exchange loss	88,215	—
Commission paid	—	10,645
Other non-operating losses	635	2,047
Total non-operating expenses	108,481	31,445
Ordinary income	1,005,994	1,383,011
Extraordinary income		
Gain on sale of fixed assets	534	1,434
Total extraordinary income	534	1,434
Extraordinary losses		
Loss on sale and retirement of fixed assets	1	1,094
Total extraordinary losses	1	1,094
Net income before taxes and adjustments	1,006,527	1,383,351
Income, inhabitants and enterprise taxes	443,856	418,541
Income taxes-deferred	(13,925)	(5,578)
Total income taxes	429,931	412,962
Quarterly net income	576,596	970,389
Quarterly net income attributable to parent shareholders	576,596	970,389

(Consolidated Statement of Comprehensive Income)

(Unit: thousand yen)

	6 months Ended June 30, 2016	6 months Ended June 30, 2017
Quarterly net income	576,596	970,389
Other comprehensive income		
Difference from evaluation of other securities	(122,293)	111,229
Deferred gains or losses on hedges	2,991	(4,243)
Foreign currency translation adjustments	(109,005)	(45,773)
Adjustment pertaining to employees' retirement benefits	9,074	22,778
Total other comprehensive income	(219,233)	83,990
Quarterly comprehensive income	357,362	1,054,379
(breakdown)		
Quarterly comprehensive income pertaining to parent shareholders	357,362	1,054,379
Quarterly comprehensive income pertaining to non-controlling shareholders	—	—

(3) Consolidated Statement of Cash Flows

(Unit: thousand yen)

	6 months Ended June 30, 2016	6 months Ended June 30, 2017
Cash flows from operating activities		
Net income before taxes and adjustments	1,006,527	1,383,351
Depreciation and amortization	104,088	135,289
Interest and dividend income	(9,125)	(9,569)
Interest expense	11,806	11,218
(Gain)/Loss on sale and retirement of fixed assets	(533)	(339)
Decrease/(increase) in accounts receivable	90,538	(382,752)
Decrease/(increase) in inventories	98,145	(1,151,141)
Decrease/(increase) in advance payment	(626,129)	619,973
Increase/(decrease) in trade notes and accounts payable	100,989	1,147,580
Increase/(decrease) in advance received	560,321	(835,669)
Increase/(decrease) in allowances	52,197	3,738
Others	(30,615)	(174,631)
Sub-total	1,358,211	747,047
Interest and dividend received	10,228	9,316
Interest paid	(13,517)	(11,806)
Income tax and other taxes paid	(376,967)	(398,737)
Net cash provided by/(used in) operating activities	977,954	345,820
Cash flows from investing activities		
Payment for purchase of tangible fixed assets	(624,761)	(111,835)
Proceeds from sale of tangible fixed assets	7,390	8,828
Payment for purchase of investment securities	(10,144)	(10,311)
Others	(8,990)	(1,285)
Net cash provided by/(used in) investing activities	(636,505)	(114,603)
Cash flows from financing activities		
Increase/(decrease) in short-term loans payable -net	—	(100,000)
Proceeds from long-term loans	700,000	100,000
Repayment of long-term loans payable	(71,662)	(103,328)
Dividends paid	(276,204)	(333,082)
Others	(23,700)	(96,735)
Net cash provided by/(used in) financing activities	328,432	(533,146)
Effect of exchange rate changes on cash and cash equivalents	(125,344)	(28,358)
Increase/(decrease) in cash and cash equivalents	544,537	(330,288)
Cash and cash equivalents at beginning of period	6,251,111	6,727,712
Cash and cash equivalents at quarter end	6,795,649	6,397,424

(4) 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.

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

Daitron Technology Co., Ltd. and Daito Denso Co., Ltd., which were the Company's consolidated subsidiaries, though not corresponding to specified subsidiaries, have been excluded from the scope of consolidation as they disappeared in the first quarter by an absorption-type merger whose surviving company is the Company.

(Additional information)

- Application of the Application Guidelines concerning Realizability of Deferred Tax Assets

The Company has applied the Application Guidelines concerning Realizability of Deferred Tax Assets (Corporate Accounting Standards Application Guidelines No.26, March 28, 2016) as from the first quarter.

(Segment information, etc.)

Segment information

[6 months Ended June 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	18,445,640	1,384,040	2,021,122	21,850,803
- Inter-segmental sales or transfer	564,453	3,147,611	57,031	3,769,096
Total	19,010,093	4,531,652	2,078,154	25,619,900
Segment income	335,458	678,984	94,261	1,108,703

	Adjustment (*1)	Amount on Consolidated Financial Statements (*2)
Net sales		
- Sales to outside customers	—	21,850,803
- Inter-segmental sales or transfer	(3,769,096)	—
Total	(3,769,096)	21,850,803
Segment income	(25,238)	1,083,465

(Notes) 1. Adjustment in Segment income of (25,238,000) yen includes the Inter-segmental transaction elimination of 24,016,000 yen and Corporate allocation not allocated to each Report Segment of (49,254,000) 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 and the 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.

[6 months Ended June 30, 2017]

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	21,071,430	1,318,303	3,020,747	25,410,482
- Inter-segmental sales or transfer	869,141	2,398,461	113,657	3,381,261
Total	21,940,572	3,716,765	3,134,405	28,791,743
Segment income	837,832	249,968	309,490	1,397,291

	Adjustment (*1)	Amount on Consolidated Financial Statements (*2)
Net sales		
- Sales to outside customers	—	25,410,482
- Inter-segmental sales or transfer	(3,381,261)	—
Total	(3,381,261)	25,410,482
Segment income	(49,906)	1,347,385

(Notes) 1. Adjustment in Segment income of (49,906,000) yen includes the inter-segmental transaction elimination of (155,000) yen and Corporate allocation not allocated to each Report Segment of (49,750,000) 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 regarding Change in Report Segment

(Change in Report Segment names, etc.)

The Company effected an absorption-type merger with Daitron Technology Co., Ltd. and Daito Denso Co., Ltd., which were its wholly-owned consolidated subsidiaries, as of January 1, 2017. With this merger, the names of the Report Segments have been changed as from the first quarter, from the former "Domestic Sales Companies" to "Domestic Sales Business," and from "Domestic Manufacturing Companies" to "Domestic Manufacturing Business," respectively. In addition, for more appropriate evaluation of the performance by the respective Report Segments, the Company has reviewed the allocation standards for Selling, general and administrative expenses not attributable to Report Segments, and changed the calculation method for Report Segment income.

The Segment Information for the previous second quarter is prepared and disclosed based on the segment names and allocation standards after change.

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