

## Financial Report for the 3-month Period Ended September 30, 2017 (Consolidated - Japanese Standards)

Company name: DAITRON 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, 2017  
 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, 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 belonging to parent shareholders |      |
|---------|-----------|------|------------------|------|-----------------|------|---|------|
|         | Mil. yen  | %    | Mil. yen         | %    | Mil. yen        | %    | Mil. yen  | %    |
| 3Q/2017 | 38,275    | 16.9 | 2,021            | 28.7 | 2,051           | 36.5 | 1,426   | 54.5 |
| 3Q/2016 | 32,731    | 3.1  | 1,570            | 42.1 | 1,502           | 39.3 | 923   | 27.0 |

Note: Comprehensive Income 3Q/2017: 1,583 million yen (115.9%) 3Q/2016: 733 million yen (0.1%)

|         | Quarterly net income per share |  | Diluted quarterly net income per share |  |
|---------|--------------------------------|--|--|--|
|         | Yen                            |  | Yen                                    |  |
| 3Q/2017 | 129.21                         |  | —                                      |  |
| 3Q/2016 | 83.16                          |  | —                                      |  |

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/2017 | 33,872       | 14,926      | 44.1                       | 1,352.71             |
| FY2016  | 32,068       | 13,914      | 43.4                       | 1,252.94             |

(Reference) Shareholders' equity 3Q/2017: 14,922 million yen FY2016: 13,911 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: None

### 3. Consolidated earnings forecast 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 |      | Quarterly net income belonging 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: 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 in accounting principles associated with revision in accounting standards, 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 shares)

3Q 2017 : 11,155,979 shares

FY 2016 : 11,155,979 shares

② number of treasury shares at period-end

3Q 2017 : 124,144 shares

FY 2016 : 53,027 shares

③ average number of shares during period (cumulative)

3Q 2017 : 11,041,783 shares

3Q 2016 : 11,103,259 shares

\* Quarterly Financial Reports are not subject to quarterly reviews.

\* Explanations on appropriate use of 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 the cumulative third quarter remained on a gradual growing 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 geopolitical risks in the Middle East and East Asia, while the US and European economies remained solid.

In our electronics industry, production activities and facility investments remained firm in the automobile, industrial robots, 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 third quarter: net sales 38,275 million yen (up 16.9% from the same term last year); operating income 2,021 million yen (up 28.7%); ordinary income 2,051 million yen (up 36.5%); and quarterly net income attributable to parent shareholders 1,426 million yen (up 54.5%).

The outline of segmental performance is as follows:

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

Consequently, net sales of this segment totaled 31,609 million yen (up 15.0% from the same term last year) with a segmental (operating) income of 1,137 million yen (up 124.4%).

#### - 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, profits fell below those of the previous year with the decreased sales ratios of special harnesses and special connectors, which are profitable, though the net sales stayed at almost the same level as in the same term last year.

Consequently, net sales of this segment totaled 2,009 million yen (down 0.9% from the same term last year), total sales including inter-segmental sales amounted to 6,096 million yen (down 5.7%), with the segmental (operating) income of 493 million yen (down 46.4%).

#### - 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" and "Electronic Components Manufacturing Equipment" 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 4,655 million yen (up 44.2% from the same term last year) with a segmental (operating) income of 459 million yen (up 141.2 million yen).

## (2) Discussion regarding financial conditions

### (Assets)

Current assets at the end of this quarter amounted to 27,570 million yen (up 1,581 million yen from the previous fiscal-end), primarily due to the increases in notes and accounts receivable-trade by 1,571 million yen. Fixed assets amounted to 6,301 million yen (up 222 million yen), mainly as a result of the increase in tangible fixed assets by 61 million yen and investment and other assets by 177 million yen.

Consequently, the total assets stood at 33,872 million yen, up 1,803 million yen from the end of the previous fiscal year.

### (Liabilities)

Current liabilities at the end of this quarter amounted to 15,676 million yen (up 731 million yen from the previous fiscal-end), primarily due to the increase in electronically recorded monetary obligations by 1,093 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 75 million yen.

Consequently, the total liabilities stood at 18,946 million yen, up 792 million yen from the end of the previous fiscal year.

### (Net assets)

Total net assets at the end of this quarter amounted to 14,926 million yen (up 1,011 million yen from the previous fiscal-end), primarily due to the quarterly net income belonging to parent shareholders of 1,426 million yen, dividend of surplus of 498 million yen, and purchase of treasure stocks of 73 million yen.

Consequently, the shareholders' equity ratio stood at 44.1%, up 0.7 point from that in the end of the previous fiscal year.

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

There has been no change in the consolidated earnings forecasts from those stated in the Financial Report for the 3-month Period Ended June 30, 2017 announced on August 2, 2017. Please note that the earnings forecasts are prepared based on the information available at the announcement date of this material and that actual results may differ depending on various factors that may arise in the future. When they need to be revised, the Company will disclose them as soon as possible.

### 3. Consolidated Financial Statements

#### (1) Consolidated Balance Sheet

(Unit: thousand yen)

|   | at December 31, 2016 | at September 30, 2017 |
|---|----------------------|-----------------------|
| <b>Assets</b>                           |                      |                       |
| Current assets                          |                      |                       |
| Cash and deposits                       | 6,757,712            | 4,091,752             |
| Notes and accounts receivable - Trade   | 10,720,663           | 12,292,526            |
| Electronically recorded monetary claims | 4,207,404            | 5,225,651             |
| Goods and products                      | 1,651,418            | 2,226,496             |
| Work in process                         | 1,052,211            | 2,051,450             |
| Raw materials                           | 329,788              | 354,450               |
| Other current assets                    | 1,273,131            | 1,330,061             |
| Allowance for doubtful accounts         | (2,782)              | (1,837)               |
| Total current assets                    | 25,989,547           | 27,570,551            |
| Fixed assets                            |                      |                       |
| Tangible fixed assets                   | 4,096,067            | 4,157,794             |
| Intangible fixed assets                 | 81,071               | 64,222                |
| Investments and other assets            |                      |                       |
| Other investments and other assets      | 1,908,581            | 2,086,474             |
| Allowance for doubtful accounts         | (6,569)              | (6,700)               |
| Total investments and other assets      | 1,902,011            | 2,079,773             |
| Total fixed assets                      | 6,079,150            | 6,301,790             |
| Total assets                            | 32,068,697           | 33,872,341            |

|   | at December 31, 2016 | at September 30, 2017 |
|---|----------------------|-----------------------|
| <b>Liabilities</b>  |                      |                       |
| Current liabilities   |                      |                       |
| Notes and accounts payable - trade                                  | 5,864,912            | 6,806,847             |
| Electronically recorded monetary obligation                         | 4,832,972            | 5,926,095             |
| Short-term loans payable  | 100,000              | 112,698               |
| Long-term loans payable due within one year                         | 978,901              | 139,996               |
| Accrued Income taxes, etc.  | 378,810              | 472,349               |
| Allowance for bonuses   | 73,706               | 507,318               |
| Other allowance   | 78,095               | 82,670                |
| Other current liabilities   | 2,637,797            | 1,628,800             |
| Total current liabilities   | <u>14,945,194</u>    | <u>15,676,776</u>     |
| Fixed liabilities   |                      |                       |
| Long-term loans payable   | 451,674              | 446,677               |
| Liabilities pertaining to employees' retirement benefits            | 2,652,744            | 2,728,500             |
| Asset retirement obligation   | 46,208               | 46,759                |
| Other fixed liabilities   | 58,163               | 47,355                |
| Total fixed liabilities   | <u>3,208,790</u>     | <u>3,269,291</u>      |
| Total liabilities   | <u>18,153,985</u>    | <u>18,946,068</u>     |
| <b>Net assets</b>   |                      |                       |
| Shareholders' equity  |                      |                       |
| Common stock  | 2,200,708            | 2,200,708             |
| Capital surplus   | 2,482,918            | 2,482,918             |
| Retained earnings   | 9,181,548            | 10,109,677            |
| Treasury stock  | (20,764)             | (94,415)              |
| Total shareholders' equity  | <u>13,844,410</u>    | <u>14,698,889</u>     |
| Accumulated other comprehensive income                              |                      |                       |
| Difference from evaluation of other investment securities           | 481,544              | 637,003               |
| Deferred gains or losses on hedges                                  | 3,046                | (1,670)               |
| Foreign currency translation adjustments                            | (10,269)             | (39,395)              |
| Accumulated adjustment pertaining to employees' retirement benefits | (407,386)            | (371,919)             |
| Total accumulated other comprehensive income                        | <u>66,935</u>        | <u>224,017</u>        |
| Minority interests  | 3,366                | 3,366                 |
| Total net assets  | <u>13,914,712</u>    | <u>14,926,273</u>     |
| Total liabilities and net assets                                    | <u>32,068,697</u>    | <u>33,872,341</u>     |

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

(Consolidated Statement of Income)

(Unit: thousand yen)

|   | 9 months Ended<br>September 30, 2016 | 9 months Ended<br>September 30, 2017 |
|---|--------------------------------------|--------------------------------------|
| Net sales   | 32,731,900                           | 38,275,168                           |
| Cost of sales   | 25,223,629                           | 29,744,897                           |
| Gross profit  | 7,508,270                            | 8,530,271                            |
| Selling, general and administrative expenses          | 5,937,327                            | 6,509,246                            |
| Operating income                                      | 1,570,943                            | 2,021,024                            |
| Non-operating income                                  |                                      |                                      |
| Interest income                                       | 1,974                                | 1,820                                |
| Dividend income                                       | 10,797                               | 12,301                               |
| Insurance dividend                                    | 13,029                               | 13,735                               |
| Foreign exchange profit                               | —                                    | 22,924                               |
| Other non-operating income                            | 16,044                               | 21,936                               |
| Total non-operating income                            | 41,845                               | 72,718                               |
| Non-operating expenses                                |                                      |                                      |
| Interest expense                                      | 17,146                               | 15,592                               |
| Loss on sale of trade notes                           | 2,000                                | 1,216                                |
| Sales discount  | 10,259                               | 9,905                                |
| Foreign exchange loss                                 | 78,431                               | —                                    |
| Commission paid                                       | —                                    | 11,145                               |
| Other non-operating losses                            | 2,021                                | 4,783                                |
| Total non-operating expenses                          | 109,859                              | 42,643                               |
| Ordinary income                                       | 1,502,929                            | 2,051,099                            |
| Extraordinary income                                  |                                      |                                      |
| Gain on sale of fixed assets                          | 1,026                                | 1,434                                |
| Total extraordinary income                            | 1,026                                | 1,434                                |
| Extraordinary losses                                  |                                      |                                      |
| Loss on sale and retirement of fixed assets           | 245                                  | 1,108                                |
| Total extraordinary losses                            | 245                                  | 1,108                                |
| Net income before taxes and adjustments               | 1,503,710                            | 2,051,425                            |
| Income, inhabitants and enterprise taxes              | 718,496                              | 765,285                              |
| Income taxes-deferred                                 | (138,096)                            | (140,556)                            |
| Total income taxes                                    | 580,399                              | 624,729                              |
| Quarterly net income                                  | 923,310                              | 1,426,696                            |
| Quarterly net income belonging to parent shareholders | 923,310                              | 1,426,696                            |

(Consolidated Statement of Comprehensive Income)

(Unit: thousand yen)

|   | 9 months Ended<br>September 30, 2016 | 9 months Ended<br>September 30, 2017 |
|---|--------------------------------------|--------------------------------------|
| Net income before taxes and adjustments                                   | 923,310                              | 1,426,696                            |
| Other comprehensive income  |                                      |                                      |
| Difference from evaluation of other securities                            | (66,990)                             | 155,459                              |
| Deferred gains or losses on hedges  | (1,384)                              | (4,717)                              |
| Foreign currency translation adjustments                                  | (135,041)                            | (29,126)                             |
| Adjustment pertaining to employees' retirement benefits                   | 13,611                               | 35,466                               |
| Total other comprehensive income  | (189,805)                            | 157,081                              |
| Quarterly comprehensive income  | 733,505                              | 1,583,778                            |
| (breakdown)   |                                      |                                      |
| Quarterly comprehensive income pertaining to parent stock                 | 733,505                              | 1,583,778                            |
| 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.

(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 adopted 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

**[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<br>Sales<br>Companies | Domestic<br>Manufacturing<br>Companies | Overseas<br>Subsidiaries | Total             |
| <b>Net sales</b>                    |                                |  |                          |                   |
| - 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         |
| <b>Total</b>                        | <b>28,379,753</b>              | <b>6,468,280</b>                       | <b>3,320,010</b>         | <b>38,168,043</b> |
| <b>Segment income</b>               | <b>506,888</b>                 | <b>919,563</b>                         | <b>190,639</b>           | <b>1,617,092,</b> |

|                                     | Adjustment (*1)    | Amount on Consolidated<br>Financial Statements (*2) |
|-------------------------------------|--------------------|---|
| <b>Net sales</b>                    |                    |   |
| - Sales to outside customers        | —                  | 32,731,900  |
| - Inter-segmental sales or transfer | (5,436,142)        | —   |
| <b>Total</b>                        | <b>(5,436,142)</b> | <b>32,731,900</b>                                   |
| <b>Segment income</b>               | <b>(46,148)</b>    | <b>1,570,943</b>                                    |

(Notes) 1. Adjustment in Segment income of (46,148) thousand yen includes the inter-segmental transaction elimination of 28,391 thousand yen and Corporate allocation not allocated to each Report Segment of (74,539) 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, 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      |
| <b>Net sales</b>                    |                          |                                  |                       |            |
| - Sales to outside customers        | 31,609,862               | 2,009,804                        | 4,655,502             | 38,275,168 |
| - Inter-segmental sales or transfer | 1,354,582                | 4,086,816                        | 166,672               | 5,608,072  |
| <b>Total</b>                        | 32,964,444               | 6,096,620                        | 4,822,175             | 43,883,240 |
| <b>Segment income</b>               | 1,137,511                | 493,014                          | 459,834               | 2,090,360  |

|                                     | Adjustment (*1) | Amount on Consolidated Financial Statements (*2) |
|-------------------------------------|-----------------|--|
| <b>Net sales</b>                    |                 |  |
| - Sales to outside customers        | —               | 38,275,168                                       |
| - Inter-segmental sales or transfer | (5,608,072)     | —  |
| <b>Total</b>                        | (5,608,072)     | 38,275,168                                       |
| <b>Segment income</b>               | (69,335)        | 2,021,024  |

(Notes) 1. Adjustment in Segment income of (69,335) thousand yen includes the inter-segmental transaction elimination of (600) thousand yen and Corporate allocation not allocated to each Report Segment of (68,735) 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 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 consolidated cumulative third 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.

(Important subsequent events)

- Disposal of treasury shares as stock compensation

The Company resolved at its board of directors meeting on October 20, 2017 on disposal of treasury shares as stock compensation (hereinafter called "Disposal") as follows:

1. Outline of Disposal

- (1) Payment date: December 4, 2017
- (2) Class and number of shares to be disposed of: 48,500 Company common shares
- (3) Disposal value: JPY 1,999 per share
- (4) Total amount of disposal value: JPY 96,951,500
- (5) Allotment method for shares for subscription: third-party allotment
- (6) Planned allottee and number of shares to be allotted: 485 subject Company employees  
(48,500 shares)
- (7) Other: For this Disposal, a securities notice has been submitted pursuant to the Financial Instruments and Exchange Act.

2. Purpose and reason of Disposal

To reward the employees' contribution to the Company's development by continuous long-term service in commemoration of the Company's absorption-type merger with Daitron Technology Co., Ltd. and Daito Denso Co., Ltd. as of January 1, 2017 and the change in its trade name associated therewith.