

# ANNUAL REPORT 2017

Year ended March 31, 2017



# Developing high-value-added businesses that fulfill the needs of customers

DAIICHI JITSUGYO CO., LTD. ("DJK") is a general machinery trading company that supplies industries worldwide with optimum production equipment and systems.

DJK has a wealth of experience with more than 60 years in global commercial transactions of ever-changing industrial technologies. Based on its long experience, DAIICHI JITSUGYO CO., LTD. and its subsidiaries (the "DJK Group") supports customers' future growth not only with its trading company functions, but also with its coordinator functions to respond to diversified customer needs including the development of cutting-edge technologies, logistics, after-sales services, and proposals that lead to the creation of added value.

## High-value total solutions designed to meet your needs

Our greatest strength is our "one-stop solution" approach. In addition to our primary machinery, we provide peripheral equipment and plant equipment to offer total support, including engineering, on-site coordination, and after-sales service. Based on a wealth of know-how and wide-ranging domestic and global networks, we provide machinery and equipment tailored to the needs of our customers. In this way, we offer total solutions that have been vetted by extensive real-world experience.

## Using a global network to stay in close contact with those in the field

Given the global reach of our customers' operations, cross-border support has become critical. As a general machinery trading company engaged in many businesses, the DJK Group stays in close contact with those in the field, providing them with timely support. Our four primary regions consist of the Americas, Europe, Southeast Asia and India, and China.



### DJK DIGEST

#### PROFILE >>> P.1

General machinery trading company that supplies industries worldwide with optimum production equipment and systems

#### CONSOLIDATED FINANCIAL HIGHLIGHTS >>> P.3

Achieved record-high sales and income, significantly above the target figures. Focused on securing orders that improve business performance.

#### INTERVIEW WITH THE PRESIDENT >>> P.5

We will take on new business areas and fields for further growth.

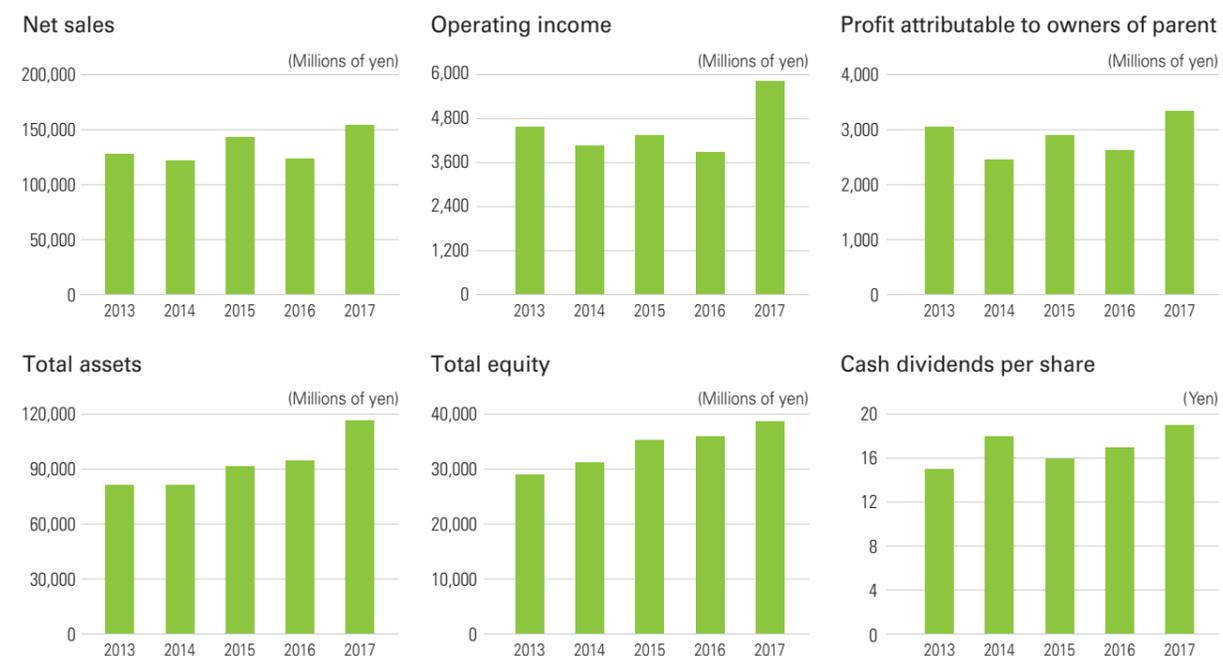
#### Other Contents

DIVISIONAL REVIEW	9	CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	22
CORPORATE GOVERNANCE	11	CONSOLIDATED STATEMENT OF CASH FLOWS	23
CONSOLIDATED FIVE-YEAR SUMMARY	15	NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	24
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	16	INDEPENDENT AUDITOR'S REPORT	40
CONSOLIDATED BALANCE SHEET	19	CORPORATE DATA / INVESTOR INFORMATION	41
CONSOLIDATED STATEMENT OF INCOME	21	DJK NETWORK	42
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	21	CORPORATE SOCIAL RESPONSIBILITY	42

#### Disclaimer regarding forward-looking statements

Statements made in this annual report with respect to DJK's forecasts and business targets that are not historical facts, are forward-looking statements about the future performance of DJK and its consolidated subsidiaries and are based on information currently available. Readers are cautioned that for a variety of reasons actual results could differ significantly from the projections presented in this report.

SELECTED FINANCIAL DATA



DIVISIONAL REVIEW → Page 9-10



■ Plant & Energy Business

Sales increased due to existing large-scale orders for various types of plant equipment.

■ Electronics Business

Orders received for equipment related to the manufacturing of electronics parts declined slightly, but steady demand is expected.

■ Aviation Business

Sales increased due to the delivery of equipment relating to aviation and airports.

■ Industrial Machinery Business

Demand for equipment for manufacturing household appliances and automobile parts has recovered.

■ Pharmaceuticals Business

Demand for equipment for the pharmaceutical and medical industries remains high.

■ Others



I would like to take this opportunity to thank our stakeholders for their support over the past fiscal year.

I, Ichiro Uno, assumed the office of President & CEO of DJK as of April 1, 2017.

Since I joined DJK, I have engaged in the chemical plant business and its expansion at the Osaka Branch and managed our U.S. subsidiary.

Looking toward the 70th anniversary of DJK next year, I feel the responsibility that lies on my shoulders to expand the DJK Group's business operations even further. In tandem with the Group's officers and employees, I will make devoted efforts to ensure that the Group creates higher added value, achieves higher productivity and enjoys continuing prosperity, thereby fulfilling the expectations of our stakeholders.

To guide the DJK Group to stable growth and to pass on a strong and healthy organization to the next generation of executive management, I will make all-out efforts to steadily execute the mid-term management plan DASH2018.

Having completed the fiscal year from April 1, 2016, to March 31, 2017, we are pleased to report the overview of the business performance of the DJK Group.

Profile

Born in:  
Shiga, Japan

Career(Assignment):

- 1982 May Joined DJK, Overseas Dept., Osaka Business Div.
- 1988 Mar. Office Manager of New York Office, DAIICHI JITSUGYO (AMERICA), INC.
- 2003 Oct. General Manager, Plant & Engineering Dept., Osaka 1st Sales Div.
- 2007 Apr. Deputy General Manager, Osaka Plant Machinery Business Div.
- 2013 Apr. Executive Officer, Branch Manager of Osaka Branch
- 2014 Apr. Executive Officer, President of DAIICHI JITSUGYO (AMERICA), INC.
- 2016 Jun. Managing Director, DJK
- 2017 Apr. President & CEO, DJK



## We will take on challenges in new business areas and fields for further growth.

**P**lease provide a summary of operating results and initiatives towards each business for the year under review.

**As initiatives are beginning to produce results in each business segment, we closed the starting year of the mid-term management plan with excellent performance.**

Although we made an upward revision in September 2016 to the forecast of business results for the year under review, actual results exceeded the revised forecasts for both net sales and net income, which hit record highs. We made an excellent start for the first year of the mid-term management plan DASH2018. Although changes in the external business environment resulted in recognizing extraordinary losses, our framework of business axis management promoted aggressive marketing efforts, which led to favorable business results.

Looking at performance by business segment, net sales for the Plant & Energy Business were improved significantly from some large existing proj-

ects for overseas plant equipment. Lithium-ion battery manufacturing equipment continued to enjoy brisk demand in the Chinese market, for which we enjoyed favorable orders received. This field is believed to be one of our future growth areas.

The Industrial Machinery Business segment secured almost the same level of results as the previous fiscal year because overseas capital investments related to automobile manufacturing recovered in the second half of the year after having been relatively sluggish in the first half. By making active proposals for equipment automation and system integration, as well as strengthening our capability of making proposals for the food-related industry, which has been

growing in Southeast Asia, we provide solutions that address various customer needs in an increasingly competitive market, thereby presenting our added value, which has gradually expanded the spectrum of our business operations.

The Electronics Business segment enjoyed favorable business results by achieving the diversification of products offered: not only offering single pieces of equipment for electronics parts mounting but also promoting system proposals including peripheral devices and automation equipment. Because the equipment demand has been brisk, reflecting the demand for switchovers to new models of digital and other products, such system proposals were highly appreciated by customers, leading to orders received on a continuous basis. We will continue to make diverse equipment proposals that address labor-saving and automation needs, as well as features associated with the Internet of Things, thereby seeking to main-

tain favorable business performance.

For the Pharmaceuticals Business segment, steady demand continued chiefly for generic pharmaceuticals. Although there is a sign of difficult circumstances due to effects of drug price revision, pharmaceutical manufacturers are beginning to consider overseas production, such as in Vietnam and India. With careful attention to these moves, we will address the changing market environment by exploring products that suit local needs.

In the Aviation Business segment, we continued to propose products that precisely address the urgent needs for security and labor-saving at airports toward the Tokyo Olympic and Paralympic Games. In addition, we will strengthen information gathering to seize business opportunities as the emergence of new types of demand is expected in the disaster prevention and firefighting fields.

### DASH2018

#### ■ BASIC CONCEPT FOR THE FORMULATION OF THE MID-TERM MANAGEMENT PLAN

Under the new three-year DASH2018 mid-term management plan slated to take effect from fiscal 2016 (ending March 2017), DJK will complete and deploy its business axis management system in cooperation with the DJK Group companies in Japan and around the world as a further globalized matrix. We also intend to implement comprehensive risk management measures and build a powerful governance system, as well as develop a leaner, stronger management organization by raising management quality to prevent losses.

#### ■ QUALITATIVE TARGET (DETAILS OF BASIC POLICIES)

##### 1. Promoting business axis management globally to realize further growth in business performance

- 1) Enhancing the revenue foundations by further promoting business axis management
- 2) Creating high levels of added value based on broad-ranging capabilities in sales, marketing and technical prowess

##### 2. Building a powerful governance system by improving the management structure

- 1) Comprehensive risk management and enhanced governance
- 2) Promoting diversity management

**Diverse,  
Active and  
Sustainable  
Operations  
with  
Hopeful  
mind  
2018**

#### ■ QUANTITATIVE TARGET

	2018 Plan (Millions of yen)
Net sales	133,000
Operating income	5,000
Profit attributable to owners of parent	3,300

**P**lease tell us the outlook for business performance in the second year of the mid-term management plan, future areas of growth and any measures to achieve greater success.

**By taking on challenges in new business areas and fields, we will expand our business opportunities in growth markets, while making strenuous efforts to reduce risks.**

To maintain the momentum of the fiscal year under review, it is essential to increase orders received. Without being bound by existing products and markets, we will focus on business fields that are growing rapidly to expand orders received.

Meanwhile, I think it is necessary to take various measures to address the overall tendency of the prolonged lead time in all business segments, such as introducing strategic inventory systems to shorten the lead time and streamlining logistics. In addition to offering highly functional equipment, we must enhance our added value by putting forth proposals on system integration including the offering of process-

ing equipment and utilities as well as consistent coordination services from building factory infrastructure to delivering equipment, which should lead to expanded business opportunities and increased volume of orders received.

In addition to the extension of existing business operations, we are exploring new business opportunities and promoting investments in development projects. At the same time, we will place stricter control over the management of technological and legal risks to prevent troubles resulting from increasingly complex business situations, thereby reinforcing our corporate governance.

**H**aving assumed the office of President, in what direction are you trying to steer the management of the DJK Group?

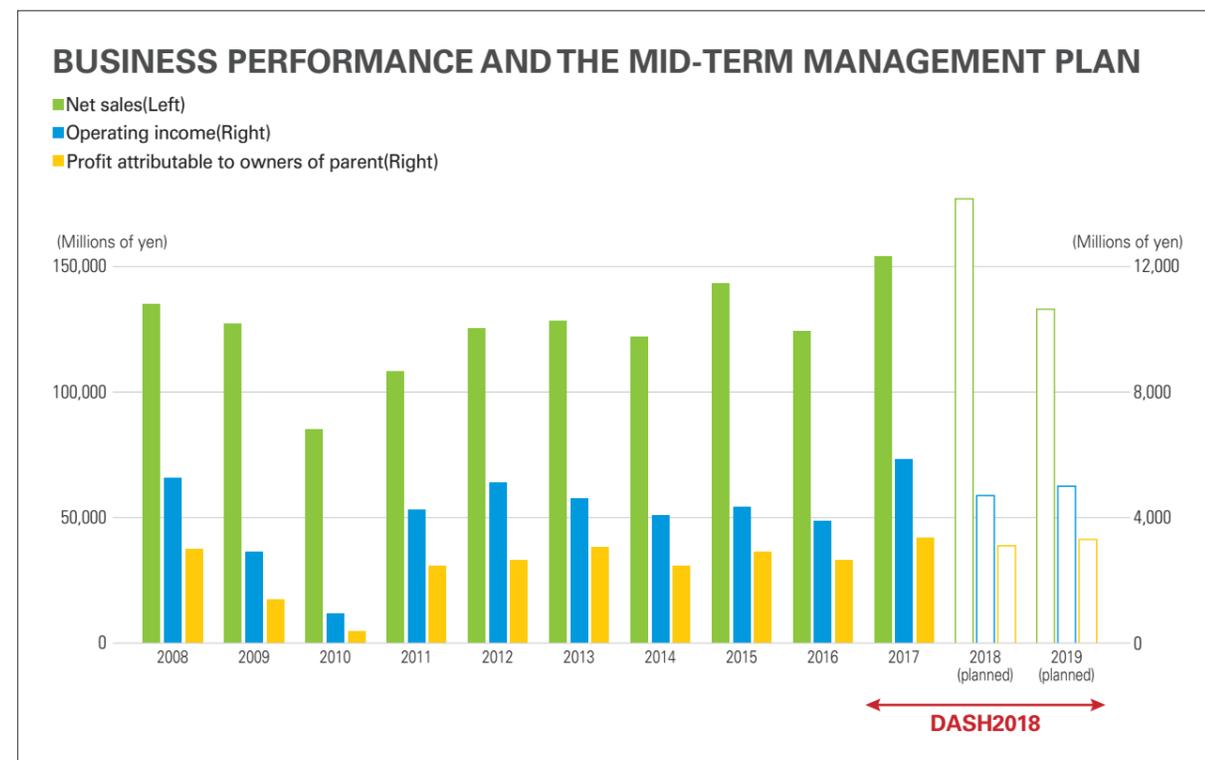
**Toward the achievement of the themes presented under the plan, I will work on the creation of new businesses without a reliance on existing trading rights.**

To continue the management of the Group in line with the themes that have been addressed so far, "globalization of the business axis management" and "raising management quality," I feel the necessity of globalizing not only the marketing divisions but also the administrative divisions to realize those themes. Because law and taxation systems differ by country or region, a basic framework and rules are necessary to enable unified control. I am preparing an approach for that purpose.

In the process of globalizing the business axis management system, I want to capture any business field that might be buried between major businesses and develop it as a new business of the Group. Particularly, among the business fields and technologies at which Japanese companies excel, entering a field

that has never been tapped by the Group will broaden the scope of its businesses. For further development of the Group, I think it is necessary to undertake drastic strategies without a reliance on existing business fields and trading rights, and will promote the development of the system composed of the creation of new businesses and business planning.

The DJK Group has a workforce of more than 1,000 globally. While promoting the exchange of these human resources and increasing their fluidity, I recognize the necessity of considering the redeployment of our national staff. Moving toward diversity, I will work to raise the awareness of staff to promote the understanding of different cultures and ensure smooth communications.



**F**inally, do you have a message for stakeholders?

**Swiftly addressing any changes in the business environment, I will steer the management of the DJK Group with committed and precise decision making.**

Toward the 70th anniversary of DJK in August 2018, I think it is important that the DJK Group's Corporate Principles: "Unified cooperation," "Sound management" and "Proactive corporate activity" be handed down from generation to generation and that every employee has a good understanding of these principles, puts them into practice and passes them onto following generations.

The business environment is expected to be increasingly diverse, taking on an extremely complicated appearance. Under such circumstances, I am determined to swiftly identify any changes in the environment; get accurate information; appropriately

judge what approach, whether offensive or defensive, to take; and provide strong leadership by making decisions speedily. We should continue what needs to be continued. We should change what needs to be changed. In doing so, we will continue to explore and develop new businesses aggressively for further growth of the DJK Group. With such a strong belief, I am going to steer the management of the DJK Group.

I would like to ask our stakeholders to expect further growth and provide continued support for the DJK Group.



## Plant & Energy Business

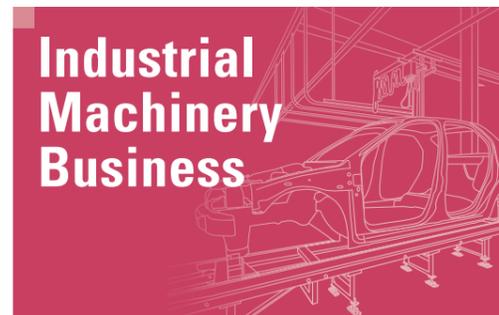
### Description of Business

As its mainstay products, DJK has offered various pieces of equipment for gas and petroleum refining, chemical, fertilizer and paper-making plants, as well as for energy development. Due to our extensive knowledge and solid technologies accumulated over the years, including those for engineering and consulting services, DJK has achieved considerable results thus far. In addition, we are engaged in new business fields, including the manufacturing of lithium-ion batteries and the production of renewable energy.



### Sales increased due to existing large-scale orders for various types of plant equipment.

Net sales for the plant & energy business increased, as sales arose from existing large-scale projects, including those for overseas equipment for oil and ethylene plants delivered through a leading engineering company and for resin manufacturing plant equipment for a chemical company. Regarding the amount of orders received, the receipt of large orders was limited, despite demand for lithium-ion battery manufacturing equipment. We will therefore make continued efforts to acquire orders.



## Industrial Machinery Business

### Description of Business

DJK's FA systems, flexible manufacturing systems (FMSs) and various automated assembly lines for manufacturing automobiles, motorcycles, household appliances and housing equipment have been highly acclaimed for their enhanced efficiency, labor-saving and streamlining of production. DJK offers a broad range of solutions from a single piece of equipment to a set of equipment for a production line and the infrastructure work for starting up a new factory to support the operation of production facilities around the world.



### Demand for equipment for manufacturing household appliances and automobile parts has recovered.

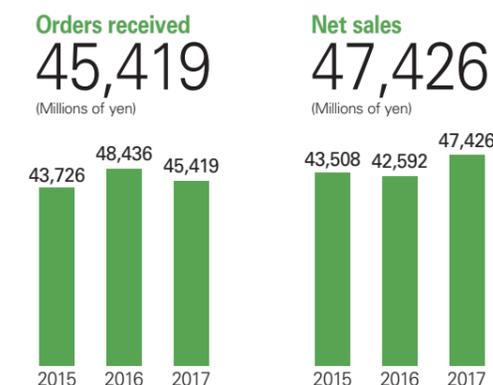
Orders received and net sales for the industrial machinery business increased slightly, reflecting increased sales from automated assembly lines, automated processing equipment and painting lines for the automotive-related industry, as well as steady demand for injection-molding machines and peripheral equipment for the manufacture of home appliances and automobile parts. Continued demand is expected from the manufacturing of automotive parts in emerging countries, which we will take advantage of to increase sales further.



## Electronics Business

### Description of Business

In the fields of surface mounting technology (SMT) and semiconductor assembly, DJK various types of PCB peripheral equipment around its core circuit through the reform of DJK proposes new business models adapted to the times its originally developed



### Orders received related to the electronics parts but steady demand for equipment manufacturing of declined slightly, is expected.

Net sales for the electronics business increased significantly due to favorable sales of the manufacturing of and digital-device-related equipment related to electronics parts for IT manufacturing companies. Although orders received decreased slightly, steady demand for manufacturing accommodate increases related production. We these business areas will seek expansion of new business fields with greater efforts on



## Pharmaceuticals Business

### Description of Business

DJK enjoys the world's top market share for tablet visual inspection systems, which detect foreign matter in tablets. We also offer such mainstay products as automated packaging lines for pharmaceuticals and various types of pharmaceutical filling devices, which are equipped with high-precision technologies. Through these products, DJK supports the production sites for pharmaceuticals where a high level of safety and security are required. DJK also provides cooperation in the development of equipment involving regenerative medicine, thereby supporting various fields of advanced medicine.



### Demand for equipment for the pharmaceutical and medical industries remains high.

Net sales for the pharmaceuticals business increased, reflecting favorable sales of tablet visual inspection systems and packaging equipment chiefly for generic pharmaceutical manufacturers. Although the equipment demand is expected to continue mainly in the domestic market, we will put effort into preparing for changes in the business environment, thereby reinforcing our activities to acquire orders.



## Aviation Business

### Description of Business

As a comprehensive supplier of ground-support equipment for airplanes and airport facility-related equipment, DJK has supported air transportation at airports nationwide by delivering many such products. DJK also offers such products that contribute to the social infrastructure such as special vehicles for disaster and defense-related equipment, which are being placed throughout Japan.



### Sales increased due to the delivery of equipment relating to aviation and airports.

Net sales for the aviation business increased as we delivered ground-support equipment for airplanes and airport facility-related equipment. To address the expected increase in demand for equipment with higher safety and efficiency, we will explore better products with higher performance in various fields, thereby securing orders received.



**1 Koji Yamagata**  
Chairman

**2 Ichiro Uno**  
President & CEO

**3 Shigeki Terakawa**  
Managing Director

**4 Hajime Kimoto**  
Managing Director

**5 Itaru Kage**  
Managing Director & CFO  
Managing Executive Officer  
(Accounting Div.)

**6 Yoshikazu Taruta**  
Managing Director  
Managing Executive Officer  
(Administration Div.)

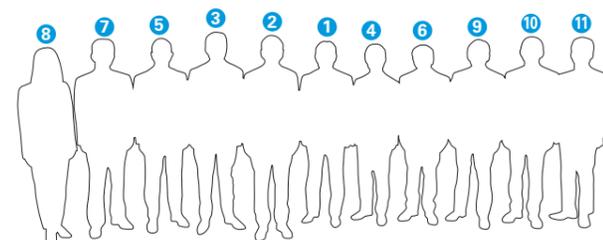
**7 Yoshikazu Sakamoto**  
Outside Director

**8 Yukie Tanaka**  
Outside Director

**9 Masahiko Mizumoto**  
Standing Audit &  
Supervisory Board Member

**10 Toshihiko Matsumiya**  
Outside Audit &  
Supervisory Board Member

**11 Mitsuyoshi Koyama**  
Outside Audit &  
Supervisory Board Member



**CORPORATE GOVERNANCE SYSTEM**



**BASIC CORPORATE GOVERNANCE POLICY**

From the perspective of reinforcing our corporate capabilities to survive global competition, DAIICHI JITSUGYO CO., LTD. (the “Company”) places high priority on promoting accurate and speedy business decision-making, while at the same time, enhancing our management oversight function to ensure the transparency of our business.

**CORPORATE GOVERNANCE ORGANIZATION**

Our Board of Directors comprises eight directors (including two outside directors) and meets in principle once a month or as necessary. The board determines basic business policies and other important matters through vigorous exchanges of opinions while also fulfilling its function as an oversight body for business execution. The board also places directors at consolidated subsidiaries in Japan and abroad to be in charge of those companies and to manage and oversee their business execution. According to the Company's Articles of Incorporation, the Board of Directors shall comprise eight members or less, who shall be elected by a general meeting of shareholders. To elect directors, one third or more of the shareholders holding voting rights must be in attendance, of which half or more must vote for said directors. The Articles of Incorporation also stipulate that cumulative voting shall not be used in resolutions for electing directors thereof.

Moreover, in an effort to further enhance its corporate value, the Company has adopted the executive officer system to conduct flexible and efficient business operations by reinforcing the business decision-making and supervising functions, as well as separating the business execution function. The Company dispatches certain executive officers to be in charge of its consolidated subsidiaries in Japan and overseas and to manage their business execution.

The Company uses an Audit & Supervisory Board system comprised of three Audit & Supervisory Board members, two of whom are outside Audit & Supervisory Board members. In addition to attending every Board of Directors meeting, these Audit & Supervisory Board members attend other important internal meetings to monitor the business execution performance of directors from an objective perspective. Audit & Supervisory Board members work to ensure the effective implementation of the audit by receiving reports on and explanations of the audit plan and results from independent auditor; exchanging opinions on the areas to be covered by the audit, the audit methods, and the audit results; sharing information; and taking other measures. According to the Articles of Incorporation,

the Company shall have five Audit & Supervisory Board members or less, who shall be elected by a general meeting of shareholders. To elect Audit & Supervisory Board members, one third or more of the shareholders holding voting rights must be in attendance, of which half or more must vote for said Audit & Supervisory Board members.

The Company has concluded an auditing agreement with the certified public accounting firm Deloitte Touche Tohmatsu LLC to act as its independent auditor. In addition to providing accounting auditing services in a fair and unbiased manner, the auditing firm provides advice on accounting matters as appropriate.

As for the internal audit system of which the central organ is the Internal Audit Division, the job execution of employees is checked and assessed as to whether it is in accordance with laws and regulations and the Articles of Incorporation, as well as with the basic internal control policy and the code of conduct.

The Company has also concluded advisory agreements with several law offices to act as its legal advisors, from which the Company receives advice as necessary, including not only for legal consulting on business affairs but also regarding the maintenance of its compliance system.

To increase the transparency of its business, the Company proactively discloses information through its Corporate Communicating Department. In addition, as one of its IR activities, the Company holds results briefing meetings every fiscal year and information meetings for individual shareholders. In these meetings, the Company reports on and explains business conditions and the future direction of the Group Company to shareholders and investors. In conjunction with these meetings, the Company makes timely and appropriate disclosure of business information through its website.

**ESTABLISHING AN INTERNAL CONTROL SYSTEM**

As a necessary tool to ensure that directors execute their business duties and conduct their business practices in accordance with laws and regulations and the Articles of Incorporation and other methods necessary to ensure proper company operations, the Company has formulated a “basic internal control policy,” the details of which are as follows.

**1. Systems to ensure that directors comply with laws and regulations and Articles of Incorporation in the execution of their business duties**

(1) In accordance with our business practices policy and code of conduct, the representative director shall ensure that business activities are premised on compliance with laws and regulations, the Arti-

cles of Corporation, and corporate ethics by repeatedly reminding the officers and employees of the Company of this policy.

- (2) To ensure that the business execution of the Company is carried out in an overall appropriate and sound manner, the directors shall endeavor to establish a practical internal control system and an overall legal compliance system from the perspective of further strengthening the Company's corporate governance. Furthermore, Audit & Supervisory Board members shall audit the effectiveness and functional capability of the internal control system, and if necessary report recommendations on improvements for the system to directors.
- (3) To deal with antisocial forces, the Company shall thoroughly manage information on the elimination and the eradication of such influences in a unified manner. External pressure applied by such antisocial forces shall be reported to the risk management committee for assessment of its importance and investigation.

## 2. System to store and manage information on business execution by directors

Information on business execution by directors shall be recorded in written form or electronic media (Hereinafter referred to as "written, etc. records") based on the Company's filings rules. These records shall be stored and managed so that they can be easily searched in an appropriate and accurate manner.

Directors and Audit & Supervisory Board members shall have free access to view these written, records.

## 3. Systems providing rules to manage possible losses and other matters of the Company, and its subsidiaries

As a foundation for the risk management system, the Company will determine risk management rules, assign managers to be in charge of the different types of risk, and establish a risk management system based on those rules.

When a management crisis occurs as determined by said rules, the Company shall set up a task force with the representative director as its head as well as an information liaison team and an outside advisory team including legal counsels. Based on these actions, the Company shall establish an organization to minimize damages and prevent them from growing through quick response.

## 4. Systems to ensure that directors carry out job execution effectively

- (1) In the Company's mid-term management and annual business plans that are built around its corpo-

rate principles, each operating section and the DJK Group companies shall work toward achieving the goals of the plan and check whether the business plan is proceeding on schedule on a monthly basis based on performance reports.

- (2) In executing their duties, directors shall comply with all of the obligations of the Board of Directors regarding business decisions as set out in the rules of the Board of Directors. Based on the principles of business decision-making, the Company will set up a system that distributes adequate information on items prior to their discussion to all directors and Audit & Supervisory Board members.
- (3) As the foundation of the system to ensure that directors carry out the execution of their duties effectively, in principle, the Board of Directors will meet regularly once a month and as otherwise necessary. Important matters regarding the business policy and strategy of the Company will first be discussed by an Executive Committee comprising directors with a ranking of managing director or above, and passed on for approval by the Board of Directors before execution.
- (4) The business execution of decisions made by the Board of Directors shall be carried out by directors and executive officers in accordance with the division of duties decided at the start of each fiscal year, with assignments, responsibilities, and execution procedures determined in detail.

## 5. Systems for ensuring that directors, executive officers, and employees execute their business duties in accordance with laws and regulations and the Articles of Incorporation

- (1) As a foundation for the compliance system, employees will be made thoroughly aware of the code of conduct.
- (2) An Internal Audit Division will be established under the supervision of the representative director and will determine internal audit rules and establish, maintain, and improve an internal control system. As necessary, the Division shall carry out audits and training sessions in all business sections.
- (3) When a major legal violation or other significant incident regarding compliance has been discovered, directors shall promptly report it to the representative director and to Audit & Supervisory Board members.
- (4) As an in-house information system to report legal violations or other incidents regarding compliance, the manager of the Internal Audit Division will promptly establish an internal communication system where information can be directly reported and operate it in accordance with the internal communications rules.
- (5) When Audit & Supervisory Board members recog-

nize that there is a problem with the operation of the Company's legal compliance system or internal communication system, they may give their opinion and require that improvement measures be formulated.

## 6. System to ensure the fairness of operations of the corporate group comprising the parent company and its subsidiaries

- (1) Based on the management rules for subsidiaries/associated companies determined by the Company, the DJK Group's sales results, financial position and other important information shall be reported to the Company regularly and the DJK Group meetings shall be held as necessary.
- (2) To ensure the appropriate and fair conduct of the Group companies, each Group company will create a code of conduct and formulate its own related rules based on it.
- (3) The Company will appoint a director in charge of business administration to implement optimal management strategies whereby prior consultation with the Company and reporting systems, as well as monitoring structure, if necessary, is in place.
- (4) If a director recognizes that a Group company has violated some aspect of the business management or business guidance systems or if a compliance problem is discovered, the director shall report it to the representative director.
- (5) DJK Group companies shall be audited by the internal audit department of the Company, and the audit results shall be reported to the Company's representative director.

## 7. System for requesting staff to aid Audit & Supervisory Board members and ensuring the independence of those staff members from the influence of directors and the effectiveness of instructions given to such assisting staff

- (1) Audit & Supervisory Board members may instruct the Internal Audit Division manager to provide assistance in matters necessary to the auditing process. The staff of the Internal Audit Division who have been instructed by Audit & Supervisory Board members to provide assistance regarding matters necessary to the auditing process may not receive other instructions regarding those matters from directors.
- (2) Based on meetings with the Audit & Supervisory Board, the Internal Audit Division manager will perform internal audits on items requested by Audit & Supervisory Board members and report the results to the Audit & Supervisory Board.

## 8. System for directors, executive officers, and employees of the Company and its subsidiaries to

report to Audit & Supervisory Board members of the Company, system for making other reports to Audit & Supervisory Board members, and system to ensure effective audit of Audit & Supervisory Board members

- (1) Directors, executive officers, and employees of the Company and the Group Company shall report the following important items regarding the Company's business or influence on business performance to the Audit & Supervisory Board members of the Company on a case-by-case basis.
  - Activities of the sections related to the establishment of the internal control system of the Company and the Group Company.
  - The principal accounting policies and standards system of the Company and the Group Company and any changes in them.
  - Details of announcements on business performance or business forecasts, details of important disclosure items.
  - Details of operations and communications of internal communications system.
  - Internal management approval (Ringi) documents, applications for different types of transactions, and keeping minutes of meetings as required by Audit & Supervisory Board members.
- (2) As necessary, Audit & Supervisory Board members may request reports on preceding issues from directors, executive officers, and employees of the Company and the Group Company.
- (3) The Audit & Supervisory Board and the representative director shall establish regular meetings to exchange opinions.
- (4) The Company will ensure an appropriate system for reporting to Audit & Supervisory Board members on legal violations and other compliance issues by maintaining the proper application of the in-house communication rules.
- (5) Audit & Supervisory Board members will check the objectivity of the work of the Company's independent certified public accounting firm, and will request reports and explanations of the details of the independent certified public accounting firm's audit and collaborate with the audit firm through periodic exchanges of information and other activities.
- (6) Persons who have reported to Audit & Supervisory Board members shall not be treated in a detrimental way because of such reporting. This matter shall be disseminated among DJK and DJK Group's officers and employees.
- (7) When Audit & Supervisory Board members request the prepayment of expenses to be incurred in the execution of their duties, etc., such shall be treated promptly except in cases where such expenses are determined to be unnecessary for their execution of duties.

## CONSOLIDATED FIVE-YEAR SUMMARY

DAIICHI JITSUGYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
Years ended March 31

	Millions of yen					Thousands of U.S. Dollars (Note 1)
	2017	2016	2015	2014	2013	2017
<b>For the year:</b>						
Net sales	¥154,120	¥124,177	¥143,361	¥122,102	¥128,229	\$ 1,373,742
Gross profit	20,476	18,164	18,922	17,363	16,710	182,514
Operating income	5,844	3,886	4,341	4,074	4,590	52,097
Net income attributable to owners of parent	3,338	2,637	2,897	2,459	3,051	29,761
Comprehensive income	3,781	1,480	4,482	3,430	4,485	33,706
Overseas sales:	76,096	57,965	78,610	61,387	67,441	678,283
Asia	53,634	44,910	56,271	47,164	58,839	478,064
Europe	8,799	2,174	3,946	1,527	2,289	78,433
North and Central America	12,887	8,899	10,146	8,068	5,197	114,873
Other	775	1,981	8,246	4,626	1,114	6,411
Depreciation and amortization	850	847	874	352	316	7,582
Capital expenditures	937	968	4,050	1,052	1,065	8,359
<b>At year-end:</b>						
Total assets	¥116,681	¥ 94,767	¥ 91,835	¥ 81,443	¥ 81,478	\$ 1,040,034
Working capital	25,636	23,372	22,670	21,935	20,322	228,505
Interest-bearing debt	9,289	10,711	11,035	8,809	7,486	82,804
Total equity	38,794	36,006	35,310	31,197	29,013	345,790
<b>Per share of common stock (in yen and U.S. dollars):</b>						
Net income	¥ 62.47	¥ 49.24	¥ 54.46	¥ 46.45	¥ 57.97	\$ 0.56
Cash dividends	19	17	16	18	15	0.17
Shareholders' equity	726.61	669.51	659.44	586.85	545.78	6.48
<b>Other statistics:</b>						
Number of shares of common stock outstanding (in thousands)	53,240	53,652	53,400	53,002	52,881	
Number of employees	1,097	1,064	1,080	1,069	1,043	
<b>Key ratios (%):</b>						
Gross profit margin	13.3	14.6	13.2	14.2	13.0	
Operating income margin	3.8	3.1	3.0	3.3	3.6	
Return on sales	2.2	2.1	2.0	2.0	2.4	
Return on assets	3.2	2.8	3.3	3.0	3.7	
Return on equity	9.0	7.4	8.7	8.2	11.2	
Asset turnover (times)	1.46	1.33	1.65	1.50	1.55	
Current ratio	134.1	142.1	143.4	145.4	139.8	
Equity ratio	33.2	37.9	38.3	38.2	35.4	
Debt-to-equity ratio	0.24	0.30	0.31	0.28	0.26	

Notes: 1. U.S. dollar figures have been converted from Japanese yen, for convenience only, at the rate of ¥112.19 to U.S.\$1.  
2. Minority interests in equity have been excluded from equity when key ratio is calculated.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### PERFORMANCE

During the consolidated fiscal year under review, the Japanese economy continued a course of moderate recovery, reflecting improvements in corporate business performance, employment and income environments due to the effects of economic financial measures taken by the Japanese government. However, although oil prices began to recover, uncertainty about the future persisted because of the emergence of geopolitical risks in certain countries and regions, changes in the political and economic policies of the United States, the Brexit issue and the deceleration of emerging economies, including China.

Under these circumstances, the DJK Group had sales from large-scale projects, including those for overseas equipment for oil and ethylene plants and favorable sales of equipment related to the manufacturing of electronics parts for IT and digital-device-related manufacturing companies. As a result, consolidated net sales for the fiscal year under review increased ¥29,942 million, or 24.1%, from the previous year to ¥154,120 million. Operating income soared ¥1,958 million, or 50.4%, to ¥5,844 million. Despite extraordinary losses, including an impairment loss on manufacturing and sales rights, profit attributable to owners of parent increased ¥700 million, or 26.6%, to ¥3,338 million, achieving record high profitability.

Performance by business segment was as follows.

### Plant & Energy Business

Due to sales from existing large-scale projects, including those for overseas equipment for oil and ethylene plants delivered through a leading engineering company and for resin manufacturing plant equipment for a chemical company, net sales increased ¥19,520 million, or 67.9%, from the previous year to ¥48,267 million. Segment income (operating income) rose ¥1,112 million to ¥1,111 million.

### Industrial Machinery Business

Reflecting increased sales from automated assembly lines, automated processing equipment and painting lines for the automotive-related industry, as well as steady demand for injection-molding machines and their peripheral equipment for the manufacture of home appliances and automobile parts, net sales increased ¥1,852 million, or 4.3%, to ¥45,340 million. Segment income (operating income) rose ¥108 million, or 7.7%, to ¥1,513 million.

### Electronics Business

Due to favorable sales of equipment related to the manufacturing of electronics parts for IT and digital-device-related manufacturing companies, net sales increased ¥4,833 million, or 11.3%, to ¥47,426 million. Segment income (operating income) increased ¥159 million, or 10.6%, to ¥1,671 million.

### Pharmaceuticals Business

Owing to favorable sales of tablet visual inspection systems and packaging equipment chiefly for generic pharmaceutical manufacturers, net sales increased ¥2,302 million, or 34.8%, to ¥8,924 million. Segment income (operating income) increased ¥121 million, or 13.5%, to ¥1,021 million.

### Aviation Business

Due to significant increases in sales from ground-support equipment for airplanes and airport facility-related equipment, net sales soared ¥1,368 million, or 57.1%, to ¥3,764 million. Segment income (operating income) increased ¥241 million, or 265.9%, to ¥332 million.

### FINANCIAL POSITION

As of March 31, 2017, total assets amounted to ¥116,681 million, increasing ¥21,913 million, or 23.1%, from the previous fiscal year. Current assets increased ¥21,832 million, or 27.7%, to ¥100,708 million. Fixed assets increased ¥81 million, or 0.5%, to ¥15,973 million.

The increase in current assets was mainly attributable to the increases in merchandise and finished products and accounts prepaid in relation to plants. The increase in fixed assets was primarily due to an increase in the book value of investment securities caused by rising stock prices, despite a decline in the manufacturing and sales rights (intangible asset) on which an impairment loss was recognized.

Total liabilities amounted to ¥77,887 million, increasing ¥19,125 million, or 32.5%, from the previous fiscal year. Current liabilities increased ¥19,568 million, or 35.3%, to ¥75,072 million, whereas long-term liabilities decreased ¥442 million, or 13.6%, to ¥2,814 million.

The primary factors of the increase in current liabilities were increases in notes and accounts payable and in advances received related to plants. The

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

decrease in long-term liabilities mainly resulted from the repayment of long-term debt.

Total equity amounted to ¥38,794 million, increasing ¥2,787 million, or 7.7%, from the previous year. The main factor of this increase was the recording of ¥3,338 million in profit attributable to owners of parent, despite the payment of dividends. As a result, the equity ratio was 33.2%, which was 4.7 percentage points lower than the 37.9% of the previous fiscal year.

Regarding cash flows of the year ended March 31, 2017, net cash provided by operating activities totaled ¥4,479 million primarily due to ¥5,183 million in income before income taxes. Net cash used in investing activities totaled ¥1,094 million, and net cash used in financial activities totaled ¥2,559 million.

Interest-bearing debt amounted to ¥9,289 million, decreasing ¥1,421 million, or 13.3%, from the previous year. This consisted of short-term bank loans of ¥7,854 million (including the current portion of long-term debt), long-term debt of ¥1,387 million and other debt of ¥48 million. The long-term debt corresponds to the acquisition of business assets for photovoltaic power generation and manufacturing and marketing rights for the binary power generation system. The debt-to-equity ratio (DER) at the end of the fiscal year under review was 0.24 times, down from 0.30 times at the end of the previous fiscal year.

In the near future, we intend to further reinforce our financial structure by effectively utilizing group-wide funds at the global level while steadily carrying out the execution of plans in accordance with the vision and basic policies of the mid-term management plan DASH2018.

### Cash Flow from Operating Activities

Net cash provided by operating activities for the consolidated fiscal year under review totaled ¥4,479 million, or a cash decrease of ¥1,465 million from the previous fiscal year. This was mainly due to the recording of income before income taxes and an increase in advances received in relation to plants, although there was an increase in accounts prepaid in relation to plants.

### Cash Flow from Investing Activities

Net cash used in investing activities totaled ¥1,094 million, or a cash decrease of ¥408 million from the

previous fiscal year. The principal factor was the acquisition of property, plant and equipment and the purchase of intangible assets.

### Cash Flow from Financing Activities

Net cash used in financing activities totaled ¥2,559 million, or a cash decrease of ¥1,426 million from the previous fiscal year. This was mainly attributable to the repayment of debt and the payment of dividends.

### BUSINESS RISKS

The following section indicates matters that could have a significant bearing on the investment decision of those considering investment in DJK with regard to the business conditions and accounting procedures stated in this annual report. However, it does not represent in any way an exhaustive description of business risks.

#### Risk of change in the macroeconomic environment

The DJK Group's major business involves the sale of various types of machinery, fixtures, parts, and lease services of various types of machinery and fixtures, which it sells domestically, imports, and exports. Overseas, under the mid-term management plan, DASH2018, which began in April 2016, the DJK Group is accelerating its business development based on its global four axes network, which has been pursued, to strengthen its profit-earning capacity. Therefore, the DJK Group's business performance may be affected by changes not only in economic trends in Japan but also on a global scale. Especially with the economic growth in China and the Asian region as well as in the North, Central, and South Americas and Europe, while these conditions provide the possibility of expanded business opportunities for the DJK Group, a slowdown in economic activity in these regions could have a negative impact on the business results of the DJK Group.

#### Risk of increased in proportion of overseas sales

Japanese companies continued to enter overseas markets and transferred their production bases overseas. In response, the DJK Group also is proceeding with the globalization of its operations by expanding its overseas network and other activities, aiming to expand its business opportunities. The proportion of overseas sales to the consolidated net sales in the fiscal year under review increased to

49.4% from 46.7% in the previous fiscal year, which accounted for almost half of total sales. With the steady implementation of the mid-term management plan DASH2018, it is expected that the overseas sales in net sales will swing upwards. As a result, there is a possibility that the international financial environment, exchange rate trends, international trends in crude oil and raw material prices, and capital investment trends for customers' production bases could affect the business results of the DJK Group. In addition, DJK's overseas business activities are exposed to the risk of unexpected changes in political systems or economic environments and social disturbances based on legal and regulatory changes.

#### Risk of increases in interest rates

DJK has signed trade commitment agreements with five banks and is progressing with the reduction of interest-bearing debt. The interest-bearing debt of the DJK Group at March 31, 2017 amounted to ¥9,289 million. Going forward, DJK will aim to systematically and stably procure working capital and to reduce interest expenses. However, should the balance of the DJK Group's financial income and expenses deteriorate because of the trend in net sales or in interest rates, it could impact negatively on the DJK Group's business results and financial position. In addition, if substantial turmoil occurs in major financial markets in Japan or overseas, financing costs could increase.

#### Credit risk

At March 31, 2017, the total sales receivables of the DJK Group amounted to ¥38,249 million, or 32.8% of total assets. As a result, DJK is exposed to the risk of losses due to the credit of its customers worsening or their businesses failing. DJK places orders with each supplier for the production of various machinery and equipment upon receiving orders from customers. For that reason, DJK acts in accordance with its rules regarding trading rights and risk management, setting maximum credit and transaction amounts in its required transaction approval procedures, requires collateral or guarantees depending on the credit rating of the debtor, and puts in place risk hedges, such as the factoring or securitization of debt. Despite these measures, if the customer experiences a liquidity crisis or a chain reaction bankruptcy due to a worsening of the business environment or a specific major debtor

experiences business problems resulting in it becoming impossible to recover credit extended, it could have a negative influence on the business results and financial position of the DJK Group.

#### Business development risk related to mid-term management plan

Under the DASH2018, the mid-term management plan which began in April 2016, the DJK Group's basic policy is to promote "business axis" management on a global basis to achieve further business expansion and to improve the management structure by building a strong corporate governance system.

Nevertheless, depending on the cost required for strategic business development and whether or not the timing and scale of the effective allocation of business resources tailored to the progress of business development is appropriate, the DJK Group could lose earnings opportunities and increase its financial burden, resulting in a negative impact on its business results and financial position.

#### Risk of disaster

Should a disaster, such as an earthquake, typhoon, fire or infectious disease epidemic occur, the DJK Group's offices; factories; computer systems; directors, executive officers, and employees; or other related assets may suffer damages or interruptions may occur in the DJK Group's business or production activities. To be able to determine whether or not its directors, executive officers, and employees are safe and to implement its business continuity plan (BCP), DJK has produced risk management manuals for the different possible disasters and established such measures as backup systems for computer system data and emergency fire drills, and implemented other disaster-related activities. Nevertheless, there is no guarantee that these measures will allow the DJK Group to completely avoid any damages from disasters, and should major damages occur, they could impact negatively on the business results and financial position of the DJK Group.

Furthermore, should one of the DJK Group's major customers or vendors suffer substantial damages from a disaster, the suspension of the business and production activities of the customer or vendor could have a negative effect on the performance of the DJK Group.

# CONSOLIDATED BALANCE SHEET

DAIICHI JITSUGYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
March 31, 2017

ASSETS	Millions of yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
<b>Current assets:</b>			
Cash and cash equivalents (Note 14)	¥ 19,853	¥ 18,953	\$ 176,959
Time deposits (Note 14)	173	183	1,546
Receivables (Note 14):			
Notes receivable	1,915	2,228	17,077
Accounts receivable	34,024	34,035	303,275
Unconsolidated subsidiaries and associated companies	4	31	40
Other	3,707	1,885	33,045
Electronically recorded monetary claims (Note 14)	2,304	1,285	20,540
Inventories (Note 4)	10,209	8,558	91,000
Deferred tax assets (Note 10)	572	566	5,103
Accounts prepaid	27,105	10,523	241,602
Other current assets	1,042	939	9,290
Allowance for doubtful accounts	(204)	(314)	(1,823)
Total current assets	100,708	78,876	897,659
<b>Property, plant and equipment</b> (Note 5):			
Land	528	528	4,715
Buildings and structures	1,734	1,574	15,463
Machinery and equipment	1,391	1,268	12,403
Furniture and fixtures	1,119	1,043	9,978
Leased assets (Note 13)	484	630	4,322
Construction in progress	151	74	1,353
Total	5,411	5,120	48,236
Accumulated depreciation	(2,121)	(2,144)	(18,908)
Net property, plant and equipment	3,290	2,975	29,327
<b>Investment and other assets:</b>			
Investment securities (Notes 3 and 14)	6,915	6,233	61,642
Investment in unconsolidated subsidiaries and associated companies	1,728	1,821	15,406
Manufacturing and sales right	1,420	2,481	12,659
Long-term deposits	697	686	6,216
Deferred tax assets (Note 10)	233	239	2,076
Assets for retirement benefits (Note 7)	1,026	868	9,152
Other assets	1,216	1,212	10,847
Allowance for doubtful accounts	(555)	(627)	(4,953)
Total investment and other assets	12,682	12,915	113,047
<b>TOTAL</b>	¥ 116,681	¥ 94,767	\$ 1,040,034

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
<b>Current liabilities:</b>			
Short-term bank loans (Notes 6 and 14)	¥ 7,391	¥ 8,362	\$ 65,881
Current portion of long-term debt (Notes 6 and 14)	463	463	4,128
Payables (Note 14):			
Notes payable	1,043	989	9,301
Accounts payable	32,127	27,326	286,366
Unconsolidated subsidiaries and associated companies	1,185	1,435	10,565
Other	130	179	1,165
Income taxes payable (Note 14)	1,305	909	11,639
Accrued expenses	1,504	1,513	13,407
Advances received	29,083	13,507	259,230
Allowance for after-sales service	166	163	1,481
Other current liabilities	671	653	5,983
Total current liabilities	75,072	55,503	669,154
<b>Long-term liabilities:</b>			
Long-term debt (Notes 6 and 14)	1,387	1,850	12,362
Liability for retirement benefits (Note 7)	322	317	2,878
Deferred tax liabilities (Note 10)	656	651	5,854
Other long-term liabilities	448	438	3,993
Total long-term liabilities	2,814	3,257	25,089
<b>Commitments and contingent liabilities</b> (Notes 13, 15 and 16)			
<b>Equity</b> (Notes 8, 9 and 19)			
Common stock, authorized, 160,000,000 shares; issued, 55,432,000 shares in 2017 and 2016	5,105	5,105	45,503
Capital surplus	3,786	3,786	33,747
Stock acquisition rights	99	76	889
Retained earnings	28,473	25,935	253,793
Treasury stock — at cost, 2,191,553 shares in 2017 and 1,779,005 shares in 2016	(985)	(767)	(8,783)
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	1,801	1,311	16,058
Deferred gain on derivatives under hedge accounting	1	4	12
Foreign currency translation adjustments	536	740	4,784
Defined retirement benefit plans	(33)	(193)	(299)
Total	38,784	35,998	345,705
Non-controlling interests	9	8	85
Total equity	38,794	36,006	345,790
<b>TOTAL</b>	¥ 116,681	¥ 94,767	\$ 1,040,034

## CONSOLIDATED STATEMENT OF INCOME

DAIICHI JITSUGYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
Year ended March 31, 2017

	Millions of yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
<b>Net sales</b>	<b>¥ 154,120</b>	¥124,177	<b>\$1,373,742</b>
<b>Cost of sales</b>	<b>133,643</b>	106,013	<b>1,191,228</b>
Gross profit	<b>20,476</b>	18,164	<b>182,514</b>
<b>Selling, general and administrative expenses</b> (Notes 11 and 12)	<b>14,631</b>	14,278	<b>130,416</b>
Operating income	<b>5,844</b>	3,886	<b>52,097</b>
<b>Other income (expenses):</b>			
Interest and dividend income	<b>199</b>	254	<b>1,777</b>
Interest expense	<b>(85)</b>	(96)	<b>(766)</b>
Purchase discount	<b>205</b>	182	<b>1,830</b>
(Loss) gain on sales of property, plant and equipment	<b>(11)</b>	30	<b>(102)</b>
Gain on sales of investment securities	<b>28</b>		<b>253</b>
Loss on investment in unconsolidated subsidiaries and associated companies	<b>(257)</b>		<b>(2,292)</b>
Impairment loss (Note 5)	<b>(750)</b>	(54)	<b>(6,693)</b>
Other – net	<b>11</b>	145	<b>101</b>
Other (expense) income – net	<b>(661)</b>	461	<b>(5,893)</b>
<b>Income before income taxes</b>	<b>5,183</b>	4,347	<b>46,203</b>
<b>Income taxes</b> (Note 10):			
Current	<b>2,084</b>	1,578	<b>18,579</b>
Deferred	<b>(237)</b>	130	<b>(2,120)</b>
Total income taxes	<b>1,846</b>	1,709	<b>16,458</b>
<b>Net income</b>	<b>3,337</b>	2,638	<b>29,745</b>
<b>Net income attributable to non-controlling interests</b>	<b>(1)</b>	0	<b>(15)</b>
<b>Net income attributable to owners of the parent</b>	<b>¥ 3,338</b>	¥ 2,637	<b>\$ 29,761</b>

	Yen		U.S. Dollars (Note 1)
	2017	2016	2017
<b>Per share of common stock</b> (Note 18)			
Basic net income	<b>¥ 62.47</b>	¥ 49.24	<b>\$ 0.56</b>
Diluted net income	<b>62.19</b>	48.96	<b>0.55</b>
Cash dividends applicable to the year	<b>19.00</b>	17.00	<b>0.17</b>

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

DAIICHI JITSUGYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
Year ended March 31, 2017

	Millions of yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
Net income	<b>¥ 3,337</b>	¥ 2,638	<b>\$ 29,745</b>
Other comprehensive income (loss) (Note 17):			
Unrealized gain (loss) on available-for-sale securities	<b>490</b>	(560)	<b>4,372</b>
Deferred (loss) gain on derivatives under hedge accounting	<b>(2)</b>	105	<b>(25)</b>
Foreign currency translation adjustments	<b>(186)</b>	(610)	<b>(1,659)</b>
Defined retirement benefit plans	<b>160</b>	(80)	<b>1,429</b>
Share of other comprehensive loss in associates	<b>(17)</b>	(12)	<b>(155)</b>
Total other comprehensive income (loss)	<b>444</b>	(1,158)	<b>3,960</b>
Comprehensive income (Note 17)	<b>¥ 3,781</b>	¥ 1,480	<b>\$ 33,706</b>
Total comprehensive income attributable to (Note 17):			
Owners of the parent	<b>¥ 3,783</b>	¥ 1,479	<b>\$ 33,722</b>
Non-controlling interests	<b>(1)</b>	0	<b>(16)</b>

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

DAIICHI JITSUGYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
Year ended March 31, 2017

	Thousands						Millions of yen						
	Number of shares of common stock outstanding	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock	Unrealized gain on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Non-controlling interests	Total equity
<b>BALANCE, APRIL 1, 2015</b>	53,400	¥ 5,105	¥ 3,786	¥ 88	¥ 24,170	¥ (866)	¥ 1,871	¥ (101)	¥ 1,363	¥ (113)	¥ 35,303	¥ 7	¥ 35,310
Net income attributable to owners of the parent					2,637						2,637		2,637
Cash dividends, ¥16.00 per share					(856)						(856)		(856)
Purchase of treasury stock	(41)					(26)					(26)		(26)
Disposal of treasury stock	293				(16)	125					108		108
Net change in the year				(11)			(560)	105	(622)	(80)	(1,169)	0	(1,168)
<b>BALANCE, MARCH 31, 2016</b>	53,652	5,105	3,786	76	25,935	(767)	1,311	4	740	(193)	35,998	8	36,006
Adjustment of retained earning for newly consolidated subsidiaries					167						167		167
Net income attributable to owners of the parent					3,338						3,338		3,338
Cash dividends, ¥18.00 per share					(962)						(962)		(962)
Purchase of treasury stock	(540)					(273)					(273)		(273)
Disposal of treasury stock	128				(6)	55					48		48
Net change in the year				22			490	(2)	(203)	160	467	1	468
<b>BALANCE, MARCH 31, 2017</b>	<b>53,240</b>	<b>¥ 5,105</b>	<b>¥ 3,786</b>	<b>¥ 99</b>	<b>¥ 28,473</b>	<b>¥ (985)</b>	<b>¥ 1,801</b>	<b>¥ 1</b>	<b>¥ 536</b>	<b>¥ (33)</b>	<b>¥ 38,784</b>	<b>¥ 9</b>	<b>¥ 38,794</b>

	Thousands of U.S. Dollars (Note 1)						Millions of yen						
	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock	Unrealized gain on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Non-controlling interests	Total equity	
<b>BALANCE, MARCH 31, 2016</b>	\$ 45,503	\$ 33,747	\$ 685	\$ 231,175	\$ (6,838)	\$ 11,686	\$ 37	\$ 6,598	\$ (1,728)	\$ 320,868	\$ 72	\$ 320,941	
Adjustment of retained earning for newly consolidated subsidiaries				1,494						1,494		1,494	
Net income attributable to owners of the parent				29,761						29,761		29,761	
Cash dividends, \$0.16 per share				(8,576)						(8,576)		(8,576)	
Purchase of treasury stock					(2,438)					(2,438)		(2,438)	
Disposal of treasury stock				(61)	492					430		430	
Net change in the year				203		4,372	(25)	(1,814)	1,429	4,164	12	4,179	
<b>BALANCE, MARCH 31, 2017</b>	<b>\$ 45,503</b>	<b>\$ 33,747</b>	<b>\$ 889</b>	<b>\$ 253,793</b>	<b>\$ (8,783)</b>	<b>\$ 16,058</b>	<b>\$ 12</b>	<b>\$ 4,784</b>	<b>\$ (299)</b>	<b>\$ 345,705</b>	<b>\$ 85</b>	<b>\$ 345,790</b>	

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

DAIICHI JITSUGYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
Year ended March 31, 2017

	Millions of yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
<b>Operating activities:</b>			
Income before income taxes	¥ 5,183	¥ 4,347	\$ 46,203
Adjustments for:			
Income taxes – paid	(1,712)	(1,601)	(15,263)
Depreciation and amortization	850	847	7,582
Impairment loss	750	54	6,693
Changes in operating assets and liabilities:			
Decrease (Increase) in allowance for after-sales service	2	(4)	24
Increase in notes and accounts receivable – trade	(706)	(2,192)	(6,301)
Increase in advance payments to suppliers	(16,444)	(1,270)	(146,581)
(Increase) Decrease in inventories	(1,747)	457	(15,580)
Increase in notes and accounts payable – trade	4,644	2,192	41,396
Increase in advances from customers	15,260	2,063	136,025
Other – net	(1,601)	1,050	(14,276)
Total adjustments	(704)	1,596	(6,279)
Net cash provided by operating activities	4,479	5,944	39,924
<b>Investing activities:</b>			
Acquisition of property, plant and equipment	(665)	(535)	(5,928)
Proceeds from sales of property, plant and equipment	7	205	68
Purchase of intangible assets	(287)	(500)	(2,563)
Acquisition of marketable and investment securities	(141)	(20)	(1,261)
Proceeds from sales of investment securities	38		343
Payments of loans receivable	(3)	(11)	(31)
Collection of loans receivable	6	89	55
Payments of long-term deposits	(109)	(30)	(974)
Other – net	59	117	532
Net cash used in investing activities	(1,094)	(686)	(9,759)
<b>Financing activities:</b>			
(Decrease) Increase in short-term bank loans – net	(883)	164	(7,875)
Repayment of long-term debt	(463)	(463)	(4,128)
Dividends paid	(962)	(856)	(8,577)
Other – net	(250)	22	(2,236)
Net cash used in financing activities	(2,559)	(1,133)	(22,818)
<b>Foreign currency translation adjustments on cash and cash equivalents</b>	<b>(240)</b>	<b>(405)</b>	<b>(2,143)</b>
<b>Net increase in cash and cash equivalents</b>	<b>583</b>	<b>3,719</b>	<b>5,202</b>
<b>Cash and cash equivalents of newly consolidated subsidiary, beginning of year</b>	<b>315</b>		<b>2,812</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>18,953</b>	<b>15,234</b>	<b>168,944</b>
<b>Cash and cash equivalents, end of year</b>	<b>¥ 19,853</b>	<b>¥ 18,953</b>	<b>\$ 176,959</b>

See notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DAIICHI JITSUGYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
Year ended March 31, 2017

### 1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2016 consolidated financial statements to conform to the classifications used in 2017.

The consolidated financial statements are stated in Japanese yen, the currency of the country, in which DAIICHI

JITSUGYO CO., LTD. (the “Company”) is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥112.19 to \$1, the approximate rate of exchange at March 31, 2017. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Amounts of less than one million yen and one thousand U.S. dollars have been rounded down to the nearest million and thousand in the presentation of the accompanying consolidated financial statements. As a result, the totals in yen and U.S. dollars do not necessarily agree with the sum of the individual amounts.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### a. Consolidation

The consolidated financial statements as of March 31, 2017, include the accounts of the Company and its 16 significant (14 in 2016) subsidiaries (together, the “Group”). Consolidation of the remaining unconsolidated subsidiaries would not have a material effect on the accompanying consolidated financial statements.

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

DJK Global Mexico, S.A. De C.V. was newly included in the scope of consolidation from the fiscal year ended March 31, 2017 due to its increase in materiality.

DAIICHI PROJECT SERVICE CO., LTD was newly included in the scope of consolidation from the fiscal year ended March 31, 2017 as it has newly founded in November, 2016.

Investments in 2 (2 in 2016) associated companies are accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries and other associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

#### b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

The accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements.

However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been recorded in the equity through other comprehensive income; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.

#### c. Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method

The accounting standard requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method unless it is impracticable to determine such adjustments. In addition,

financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (1) amortization of goodwill; (2) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (3) expensing capitalized development costs of R&D; (4) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.

**d. Cash Equivalents**

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, certificates of deposit, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

**e. Inventories**

Inventories are stated at the lower of cost, determined by the average cost method for merchandise and finished products and work in process, and by the first-in, first-out method for raw materials, or net selling value.

**f. Marketable and Investment Securities**

Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: i) held-to-maturity debt securities, for which there is a positive intent and ability to hold to maturity are reported at amortized cost; and ii) available-for-sale securities are reported at their fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, marketable and investment securities are reduced to net realizable value by a charge to income.

**g. Property, Plant and Equipment**

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed substantially by the declining-balance method based on the estimated useful lives of the assets, while the straight-line method is principally applied to the property, plant and equipment of consolidated foreign subsidiaries.

Depreciation of leased assets is computed by the straight-line method based on the lease term of the respective assets. The range of useful lives is principally from 3 to 50 years for buildings, from 2 to 17 years for machinery, equipment and vehicles, and from 2 to 23 years for furniture and fixtures.

**h. Investment and other assets**

Manufacture and selling rights are domestic exclusive rights to manufacturing, selling and etc. of binary power generation systems. It is computed by the straight-line method based on a 10-year prospective usable period.

**i. Long-Lived Assets**

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group.

The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

**j. Retirement and Pension Plans**

The Company and certain domestic consolidated subsidiaries have noncontributory and contributory funded defined benefit pension plans for employees which cover their benefits. Other consolidated subsidiaries have unfunded retirement benefit plans. The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects and are recognized in profit or loss over 14 years no longer than the expected average remaining service period of the employees.

Retirement benefits for directors and Audit & Supervisory Board Members of certain domestic consolidated subsidiaries are provided at the amount that would be required if all directors and Audit & Supervisory Board Members retired at the balance sheet date.

**k. Asset Retirement Obligations**

An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development and normal operation

of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

**l. Stock Options**

The cost of employee stock options is measured based on the fair value at the date of grant and recognized as compensation expense over the vesting period as consideration for receiving goods or services. In the consolidated balance sheet, stock options are presented as stock acquisition rights as a separate component of equity until exercised.

**m. Research and Development Costs**

Research and development costs are charged to income as incurred.

**n. Leases**

*(Lessee)*

Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the balance sheet.

*(Lessor)*

Finance leases that are deemed to transfer ownership of the leased property to the lessee are recognized as lease receivables, and finance leases that are not deemed to transfer ownership of the leased property to the lessee are recognized as investments in lease.

**o. Bonuses to Directors and Audit & Supervisory Board Members**

Bonuses to directors and Audit & Supervisory Board Members are accrued at the end of the year to which such bonuses are attributable.

**p. Income Taxes**

The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

The Company applied ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," effective April 1, 2016. There was no impact from this for the year ended March 31, 2017.

**q. Foreign Currency Transactions**

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

**r. Foreign Currency Financial Statements**

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

**s. Derivatives and Hedging Activities**

The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swaps are utilized by the Group to reduce foreign currency exchange and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: (1) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income; and (2) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

Foreign currency forward contracts employed to hedge foreign exchange exposures for export sales and import purchases are measured at fair value and the unrealized gains/losses are deferred until maturity of the hedged transaction. Forward contracts applied for forecasted (or committed) transactions are also measured at fair value but the unrealized gains/losses are deferred until the underlying transactions are completed.

Foreign currency forward contracts are utilized to hedge foreign currency exposures in procurement of machinery from overseas customers/suppliers. Trade account receivables/payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

### 3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2017 and 2016, consisted of the following:

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	2017
Non-current:			
Marketable equity securities	¥ 6,171	¥ 5,492	\$ 55,012
Government bonds	9	9	85
Other	734	730	6,543
Total	¥ 6,915	¥ 6,233	\$ 61,642

The ¥9 million of government bonds are a mortgage for guarantee of dealings.

### t. Per Share Information

Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full exercise of outstanding warrants.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the year.

The costs and aggregate fair values of investment securities at March 31, 2017 and 2016, were as follows:

	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2017				
Securities classified as:				
Available-for-sale:				
Equity securities	¥3,664	¥2,983	¥ 476	¥6,171
Held-to-Maturity	¥ 9	¥ 0		¥ 10
March 31, 2016				
Securities classified as:				
Available-for-sale:				
Equity securities	¥3,648	¥2,444	¥ 600	¥5,492
Held-to-Maturity	¥ 9	¥ 0		¥ 10

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2017				
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 32,665	\$ 26,596	\$ 4,248	\$ 55,012
Held-to-Maturity	\$ 85	\$ 3		\$ 89

### 4. INVENTORIES

Inventories at March 31, 2017 and 2016, consisted of the following:

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	2017
Merchandise and finished products	¥ 8,415	¥7,136	\$ 75,006
Work in process	1,197	813	10,675
Raw materials and supplies	596	608	5,318
Total	¥ 10,209	¥8,558	\$ 91,000

### 5. LONG-LIVED ASSETS

Year ended March 31, 2017

The group recognized an impairment loss of ¥750 million (\$6,693 thousand). The impairment loss was due to the result of reconsideration for the business project when the acquisition of domestic exclusive rights for manufacture and sales of the binary power generation system, which turned out not to be as profitable as originally expected, and the book value was written down to the recoverable amount.

Year ended March 31, 2016

The Group recognized an impairment loss of ¥54 million. The impairment loss was due to the shutdown of a supplier in China, which turned out not to be as profitable as originally expected, and the book value of the asset was written down to the recoverable amount.

### 6. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2017 and 2016, consisted of notes to bank and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 0.43% to 3.92% and 0.47% to 4.61% at March 31, 2017 and 2016, respectively.

Long-term debt at March 31, 2017 and 2016, consisted of the following:

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	2017
Loan from financial institution, due serially to 2021, with interest rates ranging 0.95% (2017 and 2016)			
Unsecured	¥ 1,512	¥ 1,871	\$ 13,478
Loan from financial institution, due serially to 2020, with interest rates ranging 0.92% (2017 and 2016)			
Unsecured	170	230	1,515
Loan from financial institution, due serially to 2021, with interest rates ranging 0.85% (2017 and 2016)			
Unsecured	168	212	1,497
Total	1,850	2,313	16,491
Less current portion	(463)	(463)	(4,128)
Long-term debt, less current portion	¥ 1,387	¥ 1,850	\$ 12,362

Annual maturities of long-term debt as of March 31, 2017, were as follows:

Year ending March 31:	Millions of yen	Thousands of U.S. Dollars
2018	¥ 463	\$ 4,128
2019	463	4,128
2020	453	4,039
2021	395	3,522
2022	75	672
2023 and there after		
Total	¥ 1,850	\$ 16,491

In order to procure operating funds efficiently and stably, loan commitments were signed with five banks. The unused credit balance under those loans as of March 31, 2017, was as follows:

	Millions of yen	Thousands of U.S. Dollars
Maximum amount of the loan commitment	¥ 10,000	\$ 89,134
Amount loaned	6,000	53,480
Unused credit balance	¥ 4,000	\$ 35,653

**7. RETIREMENT AND PENSION PLANS**

The Company and certain domestic consolidated subsidiaries have severance payment plans for employees, directors and Audit & Supervisory Board Members.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated subsidiaries and annuity payments from a trustee. In certain circumstances, the Company might pay the severance premium on termination of employment.

The Company and certain domestic consolidated subsidiaries have non-contributory and contributory funded defined benefit pension plans for employees which cover their benefits. Other consolidated subsidiaries have unfunded retirement benefit plans.

The contributory funded defined benefit pension plan, which was established under the Japanese Welfare Pension Insurance Law, covers a substitutional portion of the governmental pension program managed by the Company on behalf of the government and a corporate portion established at the discretion of the Company.

The liability for retirement benefits for directors and Audit & Supervisory Board Members was ¥17 million (\$155 thousand) and ¥16 million at March 31, 2017 and 2016, respectively. The retirement benefits for directors and Audit & Supervisory Board Members are paid subject to the approval of the shareholders.

The liability for employees' retirement benefits at March 31, 2017 and 2016, consisted of the following:

**a. Contributory funded defined benefit pension plan**

(1) The changes in defined benefit obligation for the years ended March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥ 2,835	¥ 2,711	\$ 25,270
Current service cost	194	186	1,736
Interest cost	13	26	121
Actuarial (gain) losses	(32)	5	(289)
Benefits paid	(65)	(123)	(586)
Others	3	29	34
Balance at end of year	¥ 2,949	¥ 2,835	\$ 26,287

(2) The changes in plan assets for the years ended March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥ 3,401	¥ 3,171	\$ 30,320
Expected return on plan assets	18	33	163
Actuarial losses (gain)	133	(143)	1,187
Contributions from the employer	183	463	1,631
Benefits paid	(65)	(123)	(586)
Balance at end of year	¥ 3,670	¥ 3,401	\$ 32,717

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	2017
Funded defined benefit obligation	¥ 2,643	¥ 2,533	\$ 23,564
Plan assets	(3,670)	(3,401)	(32,717)
	(1,026)	(868)	(9,152)
Unfunded defined benefit obligation	305	301	2,722
Net asset arising from defined benefit obligation	¥ (721)	¥ (566)	\$ (6,430)

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	2017
Liability for retirement benefits	¥ 305	¥ 301	\$ 2,722
Assets for retirement benefits	(1,026)	(868)	(9,152)
Net asset arising from defined benefit obligation	¥ (721)	¥ (566)	\$ (6,430)

(4) The components of net periodic benefit costs for the years ended March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	2017
Service cost	¥ 194	¥ 186	\$ 1,736
Interest cost	13	26	121
Expected return on plan assets	(18)	(33)	(163)
Amortization of prior service cost	24	24	221
Recognized actuarial losses	40	12	359
Others	53	78	474
Net periodic benefit costs	¥ 308	¥ 294	\$ 2,750

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the year ended March 31, 2017

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	2017
Prior service cost	¥ 24	¥ 24	\$ 221
Actuarial losses (gains)	206	(136)	1,836
Total	¥ 230	¥ (111)	\$ 2,058

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	2017
Unrecognized prior service cost	¥ 197	¥ 221	\$ 1,756
Unrecognized actuarial (gains) losses	(148)	57	(1,324)
Total	¥ 48	¥ 279	\$ 431

(7) Plan assets

(1). Components of plan assets

Plan assets as of March 31, 2017 and 2016, consisted of the following:

	2017	2016
Debt investments	46.6%	45.6%
Equity investments	44.1	43.6
General account	5.6	5.7
Others	3.7	5.1
Total	100.0%	100.0%

(2). Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the years ended March 31, 2017 and 2016, were set forth as follows:

	2017	2016
Discount rate	0.6%	0.5%
Expected rate of return on plan assets	0.6%	0.5%

**8. EQUITY**

Japanese companies have been subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

**a. Dividends**

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has

prescribed so in its articles of incorporation. The Company meets all the above criteria and, accordingly, the Board of Directors may declare dividends (except for dividends - in - kind) at any time during the fiscal year.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements. Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

**b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus**

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

**c. Treasury Stock and Treasury Stock Acquisition Rights**

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

**9. STOCK OPTIONS**

The stock options outstanding as of March 31, 2017, are as follows:

Stock Options	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2009 Stock Options	320	1,819,000	September 1, 2009	¥313 (\$2.79)	From August 1, 2011 to July 31, 2016
2011 Stock Options	18	87,000	September 2, 2011	¥1 (\$0.01)	From September 2, 2011 to September 1, 2041
2013 Stock Options	19	125,000	September 3, 2013	¥1 (\$0.01)	From September 3, 2013 to September 2, 2043
2015 Stock Options	15	117,000	September 2, 2015	¥1 (\$0.01)	From September 2, 2015 to September 1, 2045

The stock option activity is as follows:

	2009 Stock Options (Shares)	2011 Stock Options (Shares)	2013 Stock Options (Shares)	2015 Stock Options (Shares)
For the year ended March 31, 2017				
<u>Non-vested</u>				
March 31, 2016 — Outstanding				
Granted				
Canceled				
Vested				
March 31, 2017 — Outstanding				
<u>Vested</u>				
March 31, 2016 — Outstanding	198,000	40,000	87,000	117,000
Vested				
Exercised	(128,000)			
Canceled	(70,000)			
March 31, 2017 — Outstanding		40,000	87,000	117,000
Exercise price	¥ 313 (\$ 2.79)	¥ 1 (\$ 0.01)	¥ 1 (\$ 0.01)	¥ 1 (\$ 0.01)
Average stock price at exercise	¥ 497 (\$ 4.43)			
Fair value price at grant date	¥ 64 (\$ 0.57)	¥ 333 (\$ 2.97)	¥ 348 (\$ 3.10)	¥ 526 (\$ 4.69)

**10. INCOME TAXES**

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in normal effective statutory tax rates of approximately 30.9% and 33.1% for the years ended March 31, 2017 and 2016, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	2017
<b>Deferred tax assets:</b>			
Allowance for doubtful accounts	¥ 232	¥ 277	\$ 2,072
Allowance for bonus payable	226	215	2,014
Liability for retirement benefits	112	110	1,005
Evaluation loss on investment securities	67	67	605
Allowance for after-sales service	51	50	457
Investment in and advances to unconsolidated subsidiaries and associated companies	297	230	2,652
Revenue recognition for tax purposes	189		1,688
Impairment loss	242		2,157
Tax loss carryforwards	103	244	925
Other	510	506	4,553
Less valuation allowance	(584)	(588)	(5,213)
Total	1,449	1,115	12,917
<b>Deferred tax liabilities:</b>			
Unrealized gain on available-for-sale securities	(719)	(550)	(6,412)
Assets for retirement benefits	(311)	(262)	(2,777)
Cost of sales recognition for tax purposes	(136)		(1,216)
Other	(133)	(147)	(1,186)
Total	(1,300)	(961)	(11,592)
Net deferred tax assets	¥ 148	¥ 154	\$ 1,325

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the year ended March 31, 2017, is as follows:

	2017	2016
Normal effective statutory tax rate	30.9%	33.1%
Expenses not deductible for income tax purposes	5.3	5.7
Exclusion from charges against revenue	(1.6)	(4.6)
Percapita portion of inhabitant tax	0.5	0.5
Lower income tax rates applicable to income in certain foreign countries	(1.4)	(0.8)
Overseas income deductible for enterprise tax	(0.1)	(0.1)
Less valuation allowance	1.4	2.5
Elimination of inter-company dividend income	1.1	4.0
Other-net	(0.5)	(1.0)
Actual effective tax rate	35.6%	39.3%

**11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

Selling, general and administrative expenses for the fiscal years ended March 31, 2017 and 2016, principally consisted of the following:

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	2017
Salaries and fees	¥5,695	¥5,688	\$50,770
Retirement benefit costs	274	410	2,450
Depreciation and amortization	369	375	3,293
Research and development costs	178	236	1,590
Rental expense	¥1,263	¥1,386	\$11,260

**12. RESEARCH AND DEVELOPMENT COSTS**

Research and development costs charged to income for the years ended March 31, 2017 and 2016, were ¥178 million (\$1,590 thousand) and ¥236 million, respectively.

13. LEASES

(1) As Lessee

Total rental expenses including lease payments under finance leases for the years ended March 31, 2017 and 2016, were ¥686 million (\$6,123 thousand) and ¥833 million, respectively.

Obligations under finance leases and future minimum payments under noncancelable operating leases were as follows:

	Millions of yen		Thousands of U.S. Dollars	
	2017	2017	2017	2017
	Finance Leases	Operating Leases	Finance Leases	Operating Leases
Due within one year	¥ 16	¥328	\$ 143	\$2,925
Due after one year	32	271	287	2,422
Total	¥ 48	¥599	\$ 431	\$5,347

(2) As Lessor

The Group leases machinery, equipment and other assets.

Total rental revenues for the years ended March 31, 2017 and 2016, were ¥145 million (\$1,295 thousand) and ¥178 million, respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2017, were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	2017
Due within one year	¥ 4	¥ 29	\$ 36
Due after one year	4	116	40
Total	¥ 8	¥145	\$ 77

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Group uses financial instruments, mainly short-term debt including bank loans, based on its capital financing plan. Cash surpluses, if any, are invested in low-risk financial assets. Short-term bank loans are used to fund the Group's ongoing operations. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

(2) Nature and Extent of Risks Arising from Financial Instruments

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. Although receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are hedged by using forward foreign currency contracts.

Marketable and investment securities, mainly held-to-maturity securities and equity instruments of customers and suppliers of the Group, are exposed to the risk of market price fluctuations. Payment terms of payables, such as trade notes and trade accounts, are mainly less than one year. Although payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are hedged by using forward foreign currency contracts.

(3) Risk Management for Financial Instruments

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment term and balances of major customers

by each business administration department to identify the default risk of customers in early stage. With respect to held-to-maturity financial investment, the Group manages its exposure to credit risk by limiting its funding to high credit rated bonds in accordance with its internal guidelines. Please see Note 15 for the detail about derivatives.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of March 31, 2017 and 2016.

Market risk management (foreign exchange risk and interest rate risk)

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk is hedged principally by forward foreign currency contracts.

Interest rate swaps are used to manage exposure to market risks from changes in interest rates of loan payables.

Marketable and investment securities are managed by monitoring market values and financial position of issuers on a regular basis.

Liquidity risk management

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on maturity dates. The Group manages its liquidity risk by holding adequate volumes of liquid assets at the level of one month's sales volume, along with adequate financial planning by the corporate treasury department.

(4) Concentration of Credit Risk

There are no significant account receivables from any major customer of the Group as of March 31, 2017 and 2016.

(5) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, other rational valuation techniques are used instead. Also, please see Note 15 for the detail of fair value for derivatives.

(a) Fair value of financial instruments

	Millions of yen		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
At March 31, 2017			
Cash and cash equivalents	¥ 19,853	¥ 19,853	
Time deposits	173	173	
Receivables	39,652	39,638	¥ (13)
Electronically recorded monetary claims	2,304	2,304	
Marketable and investment securities			
Held-to-maturity	9	10	0
Equity securities	6,171	6,171	
Total	¥ 68,164	¥ 68,151	¥ (13)

Payables	¥ 34,487	¥ 34,485	¥ (1)
Short-term bank loans	7,391	7,391	
Income taxes payable	1,305	1,305	
Long-term debt	1,850	1,844	(5)
Total	¥ 45,034	¥ 45,027	¥ (7)

	Millions of yen		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
At March 31, 2016			
Cash and cash equivalents	¥ 18,953	¥ 18,953	
Time deposits	183	183	
Receivables	38,180	38,174	¥ (5)
Electronically recorded monetary claims	1,285	1,285	
Marketable and investment securities			
Held-to-maturity	9	10	0
Equity securities	5,492	5,492	
Total	¥ 64,105	¥ 64,100	¥ (4)

Payables	¥ 29,930	¥ 29,930	¥ 0
Short-term bank loans	8,362	8,362	
Income taxes payable	909	909	
Long-term debt	2,313	2,307	5
Total	¥ 41,514	¥ 41,508	¥ 6

	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
At March 31, 2017			
Cash and cash equivalents	\$ 176,959	\$ 176,959	
Time deposits	1,546	1,546	
Receivables	353,439	353,317	\$ (121)
Electronically recorded monetary claims	20,540	20,540	
Marketable and investment securities			
Held-to-maturity	85	89	3
Equity securities	55,012	55,012	
Total	\$ 607,584	\$ 607,467	\$ (117)

Cash and cash equivalents

The carrying values of cash and cash equivalents approximate fair value because of their short maturities.

Marketable and investment securities

The fair values of marketable and investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. Fair value information for marketable and investment securities by classification is included in Note 3.

Receivables and payables

The fair values of receivables and payables are measured at the amount to be received or paid at maturity discounted at the Group's assumed corporate discount rate. The foreign currency forward contracts are utilized to hedge foreign currency exposures in the procurement of raw machinery from overseas customers/suppliers. Trade account receivables/payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

Short-term bank loans and long-term debt

The fair values of short-term bank loans approximate fair value because of their short maturities. The fair values of long-term debt are determined by discounting the cash flows related to the debt at the Group's assumed corporate borrowing rate.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Derivatives

Fair value information for derivatives is included in Note 15.

#### (b) Carrying amount of financial instruments whose fair value cannot be reliably determined

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	2017
Investments in equity instruments that do not have a quoted market price in an active market	¥2,462	¥2,552	\$21,950

#### (6) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

At March 31, 2017	Millions of yen		
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years
Cash and cash equivalents	¥19,853		
Time deposits	173		
Receivables	38,990	¥ 661	
Electronically recorded monetary claims	2,304		
Marketable and investment securities			
Government bonds			¥ 9
<b>Total</b>	<b>¥61,321</b>	<b>¥ 661</b>	<b>¥ 9</b>

At March 31, 2016	Millions of yen		
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years
Cash and cash equivalents	¥18,953		
Time deposits	183		
Receivables	37,893	¥ 286	
Electronically recorded monetary claims	1,285		
Marketable and investment securities			
Government bonds			¥ 9
<b>Total</b>	<b>¥58,316</b>	<b>¥ 286</b>	<b>¥ 9</b>

At March 31, 2017	Thousands of U.S. Dollars		
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years
Cash and cash equivalents	\$176,959		
Time deposits	1,546		
Receivables	347,543	\$ 5,896	
Electronically recorded monetary claims	20,540		
Marketable and investment securities			
Government bonds			\$ 85
<b>Total</b>	<b>\$546,589</b>	<b>\$ 5,896</b>	<b>\$ 85</b>

Please see Note 6 for annual maturities of long-term debt and Note 13 (1) for obligations under finance leases.

## 15. DERIVATIVES

The Group enters into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies.

All derivative transactions are entered into hedge foreign currency exposures incorporated within the Group's business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate their authorization.

#### Derivative Transactions to Which Hedge Accounting Is Not Applied

At March 31, 2017	Millions of yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts:				
Selling				
JP¥	¥1,047		¥ 70	¥ 70
U.S.\$	522		(12)	(12)
S\$	161	¥ 8	(4)	(4)
EURO	16		(0)	(0)
THB	10		(0)	(0)
Buying				
JP¥	1,777	39	(101)	(101)
U.S.\$	336		(2)	(2)
S\$	87		(0)	(0)
DKK	0			
<b>Total</b>	<b>¥3,958</b>	<b>¥47</b>	<b>¥ (51)</b>	<b>¥ (51)</b>

At March 31, 2016	Millions of yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts:				
Selling				
U.S.\$	¥ 424		¥ 2	¥ 2
S\$	344	¥ 7	7	7
THB	84		1	1
JP¥	3		(0)	(0)
EURO	2		(0)	(0)
Buying				
JP¥	1,254		46	46
U.S.\$	30		(0)	(0)
S\$	20		(0)	(0)
EURO	1		0	0
<b>Total</b>	<b>¥ 2,166</b>	<b>¥ 7</b>	<b>¥ 56</b>	<b>¥ 56</b>

At March 31, 2017	Thousands of U.S. Dollars			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts:				
Selling				
JP¥	\$ 9,339		\$ 625	\$ 625
U.S.\$	4,653		(109)	(109)
S\$	1,436	\$ 73	(38)	(38)
EURO	143		(1)	(1)
THB	94		(2)	(2)
Buying				
JP¥	15,844	351	(905)	(905)
U.S.\$	3,000		(21)	(21)
S\$	775		(6)	(6)
DKK	0			
<b>Total</b>	<b>\$35,287</b>	<b>\$ 424</b>	<b>\$ (460)</b>	<b>\$ (460)</b>

#### Derivative Transactions to Which Hedge Accounting Is Applied

At March 31, 2017	Millions of yen			
	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Forecasted transactions				
Foreign currency forward contracts:				
Selling				
U.S.\$	Order Backlog	¥2,354	¥ 550	¥ 23
CNY	-	53	-	(4)
EURO	-	42	-	0
Buying				
U.S.\$	Released Order	484	-	14
EURO	-	479	1	(32)
DKK	-	131	-	0
THB	-	0	-	0
Assigned transactions				
Foreign currency forward contracts:				
Selling				
U.S.\$	Receivables	799	2	Note 2
EURO	-	266	-	Note 2
THB	-	0	-	Note 2
Buying				
U.S.\$	Payables and other	158	-	Note 2
KRW	-	138	-	Note 2
EURO	-	73	-	Note 2
S\$	-	2	-	Note 2
THB	-	2	-	Note 2
<b>Total</b>		<b>¥4,988</b>	<b>¥ 553</b>	<b>¥ 2</b>

At March 31, 2016	Millions of yen			
	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Forecasted transactions				
Foreign currency forward contracts:				
Selling				
U.S.\$	Order Backlog	¥1,660	¥ 53	¥ 66
EURO	-	723	7	23
CNY	-	49	-	(1)
THB	-	46	-	0
STG	-	6	-	0
JP¥	-	2	-	0
QAR	-	0	-	0
Buying				
EURO	Released Order	1,347	285	(46)
U.S.\$	-	935	-	(18)
DKK	-	477	-	(15)
SEK	-	51	-	(2)
JP¥	-	2	-	0
THB	-	1	-	(0)
Assigned transactions				
Foreign currency forward contracts:				
Selling				
U.S.\$	Receivables	1,057	15	Note 2
EURO	-	5	-	Note 2
Buying				
U.S.\$	Payables and other	203	-	Note 2
EURO	-	122	27	Note 2
STG	-	3	-	Note 2
DKK	-	1	-	Note 2
<b>Total</b>		<b>¥ 6,699</b>	<b>¥ 390</b>	<b>¥ 6</b>

## 16. CONTINGENT LIABILITIES

At March 31, 2017, the Group had the following contingent liabilities:

At March 31, 2017	Thousands of U.S. Dollars			
	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Forecasted transactions				
Foreign currency forward contracts:				
Selling				
U.S.\$	Order Backlog	\$20,982	\$ 4,902	\$ 208
CNY	-	472	-	(39)
EURO	-	376	-	2
Buying				
U.S.\$	Released Order	4,322	-	133
EURO	-	4,275	10	(292)
DKK	-	1,173	-	5
THB	-	1	-	0
Assigned transactions				
Foreign currency forward contracts:				
Selling				
U.S.\$	Receivables	7,129	19	Note 2
EURO	-	2,376	-	Note 2
THB	-	8	-	Note 2
Buying				
U.S.\$	Payables and other	1,414	-	Note 2
KRW	-	1,235	-	Note 2
EURO	-	650	-	Note 2
S\$	-	24	-	Note 2
THB	-	18	-	Note 2
<b>Total</b>		<b>\$44,464</b>	<b>\$ 4,932</b>	<b>\$ 17</b>

Notes: 1. The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

2. Fair value of the foreign currency forward contracts assigned for receivables and payables is included in the fair value of receivables and payables disclosed at Note 14. (5) (a).

	Millions of yen	Thousands of U.S. Dollars
Guarantees and similar items of bank loans	¥25	\$ 223

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 17. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	2017
Unrealized gain on available-for-sale securities:			
Gains arising during the year	¥ 677	¥ (811)	\$ 6,035
Reclassification adjustments to profit or loss	(17)		(155)
Amount before income tax effect	659	(811)	5,879
Income tax effect	(169)	250	(1,507)
Total	490	(560)	4,372
Deferred gain on derivatives under hedge accounting:			
Gains arising during the year	(4)	158	(36)
Reclassification adjustments to profit or loss			
Amount before income tax effect	(4)	158	(36)
Income tax effect	1	(52)	10
Total	(2)	105	(25)
Foreign currency translation adjustments:			
Adjustments arising during the year	(186)	(610)	(1,659)
Total	(186)	(610)	(1,659)
Defined retirement benefit plans			
Gains arising during the year	165	(149)	1,477
Reclassification adjustments to profit or loss	65	37	581
Amount before income tax	230	(111)	2,058
Income tax effect	(70)	31	(629)
Total	160	(80)	1,429
Share of other comprehensive loss in associates:			
Gains arising during the year	(17)	(12)	(155)
Reclassification adjustments to profit or loss			
Total	(17)	(12)	(155)
<b>Total other comprehensive income</b>	<b>¥ 444</b>	<b>¥ (1,158)</b>	<b>\$ 3,960</b>

### 18. NET INCOME PER SHARE

A reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2017 and 2016, is as follows:

Year ended March 31, 2017	Millions of yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income Attributable to Owners of the Parent	Weighted-Average Shares	EPS	
Basic EPS				
Net income available to common shareholders	¥ 3,338	53,446	¥ 62.47	\$ 0.56
Effect of dilutive securities				
Warrants		243		
Diluted EPS				
Net income for computation	3,338	53,690	62.19	0.55
Year ended March 31, 2016				
Basic EPS				
Net income available to common shareholders	2,637	53,578	49.24	0.44
Effect of dilutive securities				
Warrants		306		
Diluted EPS				
Net income for computation	¥ 2,637	53,884	¥ 48.96	\$ 0.43

### 19. SUBSEQUENT EVENTS

The following appropriations of retained earnings at March 31, 2017, were approved at the shareholders' meeting of the Company held on June 27, 2017:

	Millions of yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥10.00 (\$0.09) per share	¥532	\$4,745

#### Consolidation of Shares and Revision of the Number of Shares per Trading Unit

The Company resolved at the board of directors' meeting held on May 11, 2017, to submit a proposal for partial amendment

of the Articles of Incorporation for the consolidation of shares and the revision of the number of shares per trading unit. The proposal was approved by resolution at the 94th Annual General Meeting of Shareholders held on June 27, 2017.

#### (a) Reason for the consolidation of shares

The Japanese stock exchanges announced the "Action Plan for Consolidating Trading Units" and are pursuing the goal of consolidation of the trading units of listed companies at 100 shares. In accordance therewith, the Company proposed to change the number of shares per trading unit from 1,000 to 100

shares and consolidate its shares in order to meet the standard of the investment unit (¥50,000 or more and less than ¥500,000) that the Japanese stock exchanges deem to be desirable.

#### (b) Details of the consolidation of shares

The Japanese stock exchanges announced the "Action

##### (1) Class of stock to be consolidated:

- Common shares

##### (2) Method of consolidation and ratio:

- The Company shall consolidate the shares on October 1, 2017, at a ratio of 5 to 1 held by the shareholders registered on September 30, 2017.

##### (3) Decrease in the number of common shares due to the consolidation

Number of common shares outstanding before the consolidation of shares (as of March 31, 2017)

- 55,432,000 shares

Number of common shares to be decrease by the consolidation of shares

- 44,345,600 shares

Number of common shares outstanding after the consolidation of shares

- 11,086,400 shares

Notes: "Number of common shares to be decreased by the consolidation of shares" and "Number of common shares outstanding after the consolidation of shares" are theoretical values calculated based on the number of common shares outstanding before the consolidation of shares and the consolidation ratio.

#### (c) Impact on per share information

Per share information for the fiscal years ended March 31, 2017 and 2016, is as follows, assuming that the shares were consolidated as such at the beginning of the fiscal year ended March 31, 2016

	yen		U.S. Dollars
	2017	2016	2017
Net asset per share of common stock	¥ 3,633.04	¥ 3,347.56	\$ 32.38
Net income per share of common stock	312.36	246.18	2.78
Diluted net income per share of common stock	¥ 310.94	¥ 244.78	\$ 2.77

### 20. SEGMENT INFORMATION

The Group is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

#### (1) Description of Reportable Segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. As such, the Group's reportable segments consist of the Plant & Energy Business, Industrial Machinery Business, Electronics Business, Pharmaceuticals Business and Aviation Business.

- Plant & Energy Business: Machinery and equipment for energy development and production, oil and gas refining, chemical, engineering, construction and pulp and paper industries.
- Industrial Machinery Business: Machinery and equipment for plastics, rubber, automobiles, steel and food industries.
- Electronics Business: Machinery and equipment for the industries of electronics, IT, electric machinery, precision, optical, audio and musical instruments.
- Pharmaceuticals Business: Machinery and equipment for pharmaceuticals and medical industries.
- Aviation Business: Machinery and equipment for aviation and disaster prevention.

#### (2) Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets, Liabilities and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

#### (3) Information about Sales, Profit (Loss), Assets, Liabilities and Other Items

	Millions of yen									
	2017									
	Reportable segment					Subtotal	Other	Total	Reconciliations	Consolidated
Plant & Energy Business	Industrial Machinery Business	Electronics Business	Pharmaceuticals Business	Aviation Business						
Sales										
Sales to external customers	¥ 48,267	¥ 45,340	¥ 47,426	¥ 8,924	¥ 3,764	¥ 153,724	¥ 395	¥ 154,120		¥ 154,120
Intersegment sales or transfers	525	497	708	727		2,458	30	2,489	¥ (2,489)	
Total	48,793	45,838	48,134	9,651	3,764	156,183	426	156,609	(2,489)	154,120
Segment profit (loss)	1,111	1,513	1,671	1,021	332	5,651	(47)	5,603	240	5,844
Segment assets	42,889	26,487	23,867	6,385	1,272	100,902	413	101,315	15,365	116,681
Other:										
Depreciation	368	21	76	112	26	604	11	616	234	850
Impairment loss (Note 4)	750					750		750		750
Investment in an equity method company		1,165				1,165		1,165		1,165
Increase in property, plant and equipment and intangible assets	¥ 55	¥ 4	¥ 76	¥ 482	¥ 127	¥ 746	¥ 4	¥ 750	¥ 186	¥ 937

Millions of yen										
2016										
Reportable segment										
	Plant & Energy Business	Industrial Machinery Business	Electronics Business	Pharmaceuticals Business	Aviation Business	Subtotal	Other	Total	Reconciliations	Consolidated
Sales										
Sales to external customers	¥28,747	¥43,488	¥42,592	¥6,622	¥2,395	¥123,846	¥331	¥124,177		¥124,177
Intersegment sales or transfers	376	388	410	643		1,819	89	1,909	¥(1,909)	
Total	29,124	43,877	43,003	7,265	2,395	125,666	421	126,087	(1,909)	124,177
Segment profit	(0)	1,405	1,511	900	90	3,907	(87)	3,819	66	3,886
Segment assets	24,908	23,027	23,689	7,014	1,418	80,057	245	80,303	14,464	94,767
Other:										
Depreciation	388	38	90	39	21	578	26	604	242	847
Impairment loss (Note 3)		54				54		54		54
Investment in an equity method company		966				966		966		966
Increase in property, plant and equipment and intangible assets	¥15	¥25	¥80	¥112	¥38	¥271	¥142	¥414	¥553	¥968

Thousands of U.S. Dollars										
2017										
Reportable segment										
	Plant & Energy Business	Industrial Machinery Business	Electronics Business	Pharmaceuticals Business	Aviation Business	Subtotal	Other	Total	Reconciliations	Consolidated
Sales										
Sales to external customers	\$430,233	\$404,143	\$422,735	\$79,549	\$33,552	\$1,370,215	\$3,527	\$1,373,742		\$1,373,742
Intersegment sales or transfers	4,683	4,437	6,312	6,482		21,915	274	22,189	\$(22,189)	
Total	434,917	408,580	429,048	86,031	33,552	1,392,131	3,801	1,395,932	(22,189)	1,373,742
Segment profit (loss)	9,910	13,489	14,901	9,105	2,966	50,372	(422)	49,949	2,147	52,097
Segment assets	382,291	236,097	212,737	56,919	11,343	899,390	3,681	903,071	136,963	1,040,034
Other:										
Depreciation	3,286	188	677	1,002	236	5,392	100	5,493	2,089	7,582
Impairment loss (Note 4)	6,693					6,693		6,693		6,693
Investment in an equity method company		10,390				10,390		10,390		10,390
Increase in property, plant and equipment and intangible assets	\$494	\$43	\$677	\$4,299	\$1,138	\$6,654	\$39	\$6,693	\$1,665	\$8,359

Notes: 1) Transfers between segments are made at arm's-length prices.  
2) Segment profit is adjusted to ensure consistency with the operating income set forth in the consolidated statements of income.  
3) The impairment loss in the industrial machinery business segment was due to the shutdown of a supplier in China, which turned out not to be as profitable as originally expected, and the book value of the asset was written down to the recoverable amount.  
4) The impairment loss in the plant & energy business segment was due to the result of reconsideration for the business project when the acquisition of domestic exclusive rights for manufacture and sales of the binary power generation system, which turned out not to be as profitable as originally expected, and the book value was written down to the recoverable amount.

**(4) Information about products and services**

Information about products and services is omitted as it is presented in the description of reportable segments.

**(5) Information about geographical areas**

**a. Sales**

Millions of Yen						
2017						
Japan	China	Asia	North America	Europe	Other	Total
¥78,023	¥16,231	¥37,402	¥12,887	¥8,799	¥775	¥154,120

Millions of Yen						
2016						
Japan	China	Asia	North America	Europe	Other	Total
¥66,212	¥19,335	¥25,575	¥8,899	¥2,174	¥1,981	¥124,177

Thousands of U.S. Dollars						
2017						
Japan	China	Asia	North America	Europe	Other	Total
\$695,459	\$144,674	\$333,389	\$114,873	\$78,433	\$6,911	\$1,373,742

Notes: Sales are classified by country or region based on the location of customers.

**b. Property, plant and equipment**

Millions of Yen			
2017			
Japan	Asia	Other	Total
¥3,065	¥118	¥105	¥3,290

Millions of Yen			
2016			
Japan	Asia	Other	Total
¥2,761	¥161	¥53	¥2,975

Thousands of U.S. Dollars			
2017			
Japan	Asia	Other	Total
\$27,327	\$1,055	\$944	\$29,327

**(6) Information about major customers**

Information about major customers is omitted as no single external customer accounts for 10% or more of net sales in the consolidated statements of income.

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of Daiichi Jitsugyo Co., Ltd.:

We have audited the accompanying consolidated balance sheet of Daiichi Jitsugyo Co., Ltd. and its consolidated subsidiaries as of March 31, 2017, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Daiichi Jitsugyo Co., Ltd. and its consolidated subsidiaries as of March 31, 2017, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

**Convenience Translation**

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

*Deloitte Touche Tohmatsu LLC*

June 27, 2017

**DAIICHI JITSUGYO CO., LTD.**

**Date of Establishment**

August 12, 1948

**Paid-in Capital**

¥5,105 million

**Stock Exchange Listing**

Tokyo Stock Exchange, First Section

**Number of Employees**

454 (Non-consolidated)

1,097 (Consolidated)

**Transfer Agent and Registrar**

Tokyo Securities Transfer Agent Co., Ltd.

**Common Stock**

Authorized: 160,000,000 shares

Issued: 55,432,000 shares

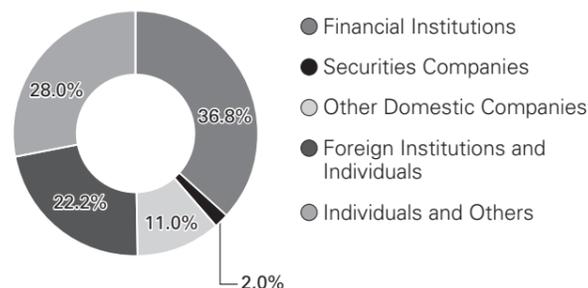
Number of shareholders: 5,195

**Major Shareholders**

	(% of total)
Mizuho Bank, Ltd.	4.80
Sumitomo Mitsui Banking Corporation	4.80
Japan Trustee Services Bank, Ltd.	3.63
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	3.50
Resona Bank, Limited.	3.18
The Master Trust Bank of Japan, Ltd.	2.92
Sompo Japan Nipponkoa Insurance Inc.	2.86

\* Percentages of total shares issued are calculated based on the total number of shares issued excluding treasury stock.

**Distribution of Ownership among Shareholders**



**Directors and Audit & Supervisory Board Members** (As of June 27, 2017)

**Chairman**

Koji Yamagata\*1

**President & CEO**

Ichiro Uno\*1

**Managing Directors**

Shigeki Terakawa

Hajime Kimoto

Yoshikazu Taruta\*2

**Managing Director & CFO**

Itaru Kage\*2

**Outside Directors**

Yoshikazu Sakamoto

Yukie Tanaka

**Standing Audit & Supervisory Board Member**

Masahiko Mizumoto

**Outside Audit & Supervisory Board Members**

Toshihiko Matsumiya

Mitsuyoshi Koyama

**Executive Officers** (As of June 27, 2017)

**Managing Executive Officers**

Itaru Kage

Accounting Div.

Yoshikazu Taruta

Administration Div.

Akira Kasamatsu

Industrial Machinery Business Div.

Muneo Yamano

Plant & Energy Business Div.

Masaru Moriya

DAIICHI MECHA-TECH CORPORATION

**Executive Officers**

Hitoshi Takasaki

DAIICHI MECHA-TECH CORPORATION

Ryuichi Ninomiya

DAIICHI JITSUGYO ASIA PTE. LTD.

Masatoshi Ueno

Electronic Systems Business Div.

Daisuke Ozono

SHANGHAI YISHI TRADING CO., LTD.

Yuji Funawatari

Pharma Business Div.

Masatoshi Kubota

DAIICHI JITSUGYO (AMERICA), INC.

\*1 : Representative Director

\*2 : Director who also serves as Managing Executive Officer



Note: The locations of the bases shown here include the branches and offices of the Company as well as those of the DJK Group companies.

**SIGNIFICANT SUBSIDIARIES**

**OVERSEAS**

- DJK EUROPE GMBH  
Consolidated subsidiary
- DAIICHI JITSUGYO ASIA PTE. LTD.  
Consolidated subsidiary
- DAIICHI JITSUGYO (THAILAND) CO., LTD.  
Consolidated subsidiary
- DAIICHI PROJECT SERVICE CO., LTD.  
Consolidated subsidiary
- DAI-I CHI JITSUGYO (MALAYSIA) SDN. BHD.  
Consolidated subsidiary
- DAIICHI JITSUGYO (PHILIPPINES), INC.  
Consolidated subsidiary
- DJK FACTORY SOLUTIONS (PHILIPPINES), INC.
- DAIICHI JITSUGYO (VIETNAM) CO., LTD.  
Consolidated subsidiary
- PT. DJK INDONESIA  
Consolidated subsidiary

- SHANGHAI YISHI TRADING CO., LTD.  
Consolidated subsidiary
- DAIICHI JITSUGYO (GUANGZHOU) TRADING CO., LTD.  
Consolidated subsidiary
- DAIICHI JITSUGYO (HONG KONG) LIMITED  
Consolidated subsidiary
- DJK (TAIWAN) CORP.
- DAIICHI JITSUGYO (AMERICA), INC.  
Consolidated subsidiary
- DAIICHI JITSUGYO PUERTO RICO, INC.
- DJK GLOBAL MEXICO, S.A. DE C.V.  
Consolidated subsidiary
- DAIICHI JITSUGYO DO BRASIL COMERCIO DE MAQUINAS LTDA.

**DOMESTIC**

- DAIICHI MECHA-TECH CORPORATION  
Consolidated subsidiary

- DAIICHI JITSUGYO VISWILL CO., LTD.  
Consolidated subsidiary
- DAIICHI ENGINEERING CO., LTD.
- FLOW DYNAMICS, INC.
- DJK SOLAR SOLUTION CO., LTD.  
Consolidated subsidiary

**SIGNIFICANT AFFILIATES**

**OVERSEAS**

- SHIRAGANE PLATING TECHNOLOGY (CHANGZHOU) CO., LTD.

**DOMESTIC**

- SULZER DAIICHI K.K.
- ASANO LABORATORIES CO., LTD.

**CORPORATE SOCIAL RESPONSIBILITY**

**Top commitment**

The DJK Group is committed to fulfilling its social responsibilities globally in accordance with its management philosophy of contributing to social prosperity. The DJK Group aims for corporate growth and the development of a sustainable society by

focusing on environmental considerations, thorough legal compliance, and enhanced relations with stakeholders, while maintaining its role as part of the worldwide distribution channel of economic society.

**Management outlook based on a keen awareness of social responsibility**





**DAIICHI JITSUGYO CO., LTD.**

Headquarters:

Ochanomizu Sola City, 4-6 Kandasurugadai, Chiyoda-ku, Tokyo 101-8222, Japan

TEL : +81-3-6370-8600 FAX : +81-3-6370-8601

<http://www.djk.co.jp/>