



DAIICHI JITSUGYO CO., LTD.

ANNUAL REPORT 2014

Year ended March 31, 2014



Our Advantages

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, the 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, DAIICHI JITSUGYO CO., LTD. and its subsidiaries (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.

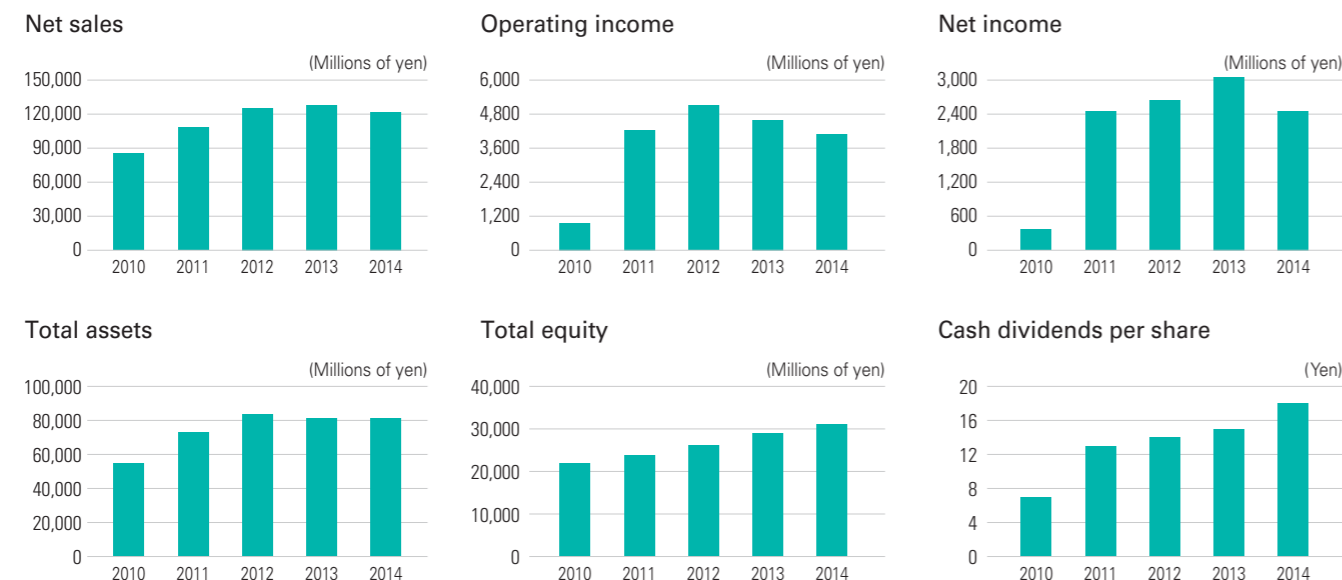
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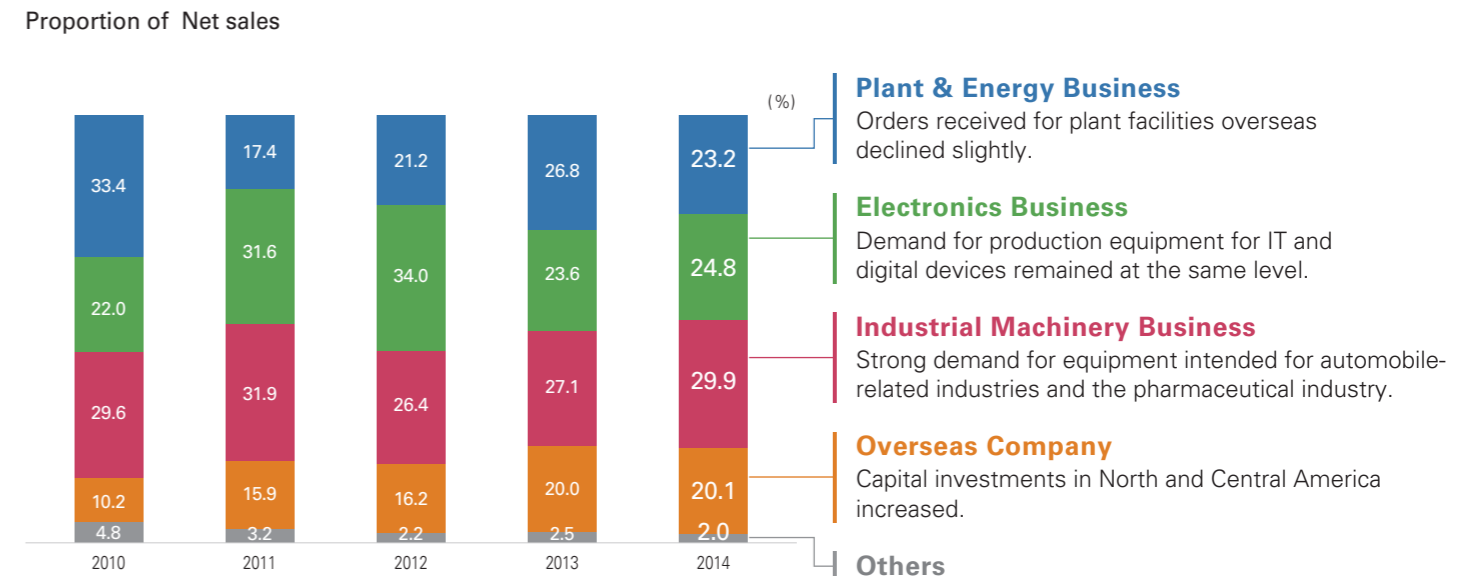
Disclaimer regarding forward-looking statements

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 8-9



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

Having completed the fiscal year from April 1, 2013, to March 31, 2014, we are pleased to report the overview of the business performance of the DJK Group.



Koji Yamagata
President & CEO

Please provide a summary of the operating results for the fiscal year under review.

Although the business results were lower than the targets, demand for equipment in automobile-related industries and the pharmaceutical industry was favorable.

For the fiscal year ended March 31, 2014, against the background of the effects of the economic and financial measures by the Japanese government, the improvement in the export environment, corporate revenues and consumer consumption led to an economic recovery trend and a recovery in some corporations' willingness to make capital investments.

With regard to the DJK Group's businesses, sales of our various machines and equipment for automobile-related industries and the pharmaceutical industry and sales of equipment in the aviation industry progressed favorably. However, recovery was delayed in the demand for production equipment for IT and digital devices for electronic manufacturing services (EMS) in China, South Korea and Taiwan and the delivery of some equipment for petroleum plants and overseas plants through leading engineering companies was postponed. As a result, consolidated net sales decreased 4.8% year on year to ¥122.1 billion, operating income declined 11.2% to ¥4.07 billion, ordinary income fell 9.1% to ¥4.48 billion and net income decreased 19.4% year on year to ¥2.46 billion.

Although the business results for the fiscal year under review were slightly lower than the initial targets, the global demand for manufacturing equipment in each industry is recovering and orders received exceeded the

level of the previous year, generating a backlog of orders leading to profits for the next fiscal year.

By industry, demand for equipment for automobile-related industries became brisk in Mexico. In Asia, although demand was slightly sluggish in India, high levels of orders received and sales were maintained in Indonesia, Thailand and the Philippines. Demand for manufacturing equipment for the pharmaceutical industry progressed favorably with the revitalization of domestic production for generic pharmaceutical products. For the aviation industry, results were steady with the delivery of equipment for a large-scale order for airport-use chemical fire engines and ground-support equipment for discount airline companies. In the plant industry, despite brisk demand for manufacturing equipment for fertilizer plants overseas through leading engineering companies, ethylene plants and chemical plants for leading chemical companies, there were fewer large-scale orders for equipment for petrochemical plants, resulting in decreases both in orders received and net sales. In the electronics industry, where the demand recovery has been delayed, major orders received were of production equipment for smartphones and tablet devices. Despite a continued overall severe situation where the trend of capital investments was influenced by short-term changes in demand, positive movement was seen in the in-

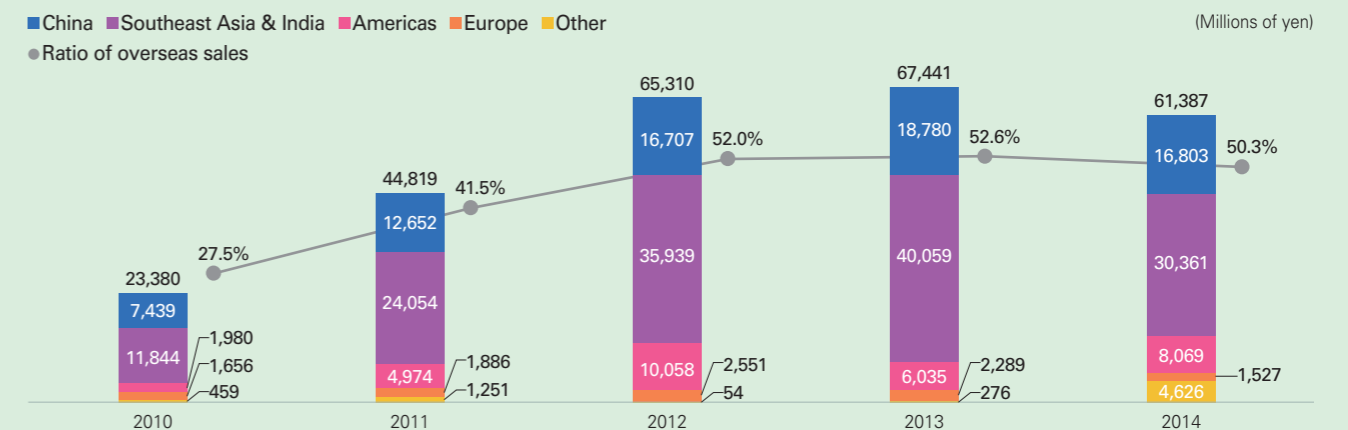
CONSOLIDATED FINANCIAL HIGHLIGHTS

DAIICHI JITSUGYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. Dollars (Note)
	2014	2013	2014
For the year:			
Net sales	¥ 122,102	¥ 128,229	\$ 1,186,386
Operating income	4,074	4,590	39,591
Net income	2,459	3,051	23,900
At the year-end:			
Total assets	81,443	81,478	791,325
Total equity	31,197	29,013	303,123
	Yen		U.S. Dollars (Note)
	2014	2013	2014
Per share data:			
Cash dividends	¥ 18.00	¥ 15.00	\$ 0.17

Note: U.S. dollar figures have been converted from Japanese yen, for convenience only, at the rate of ¥102.92 to U.S.\$1.

OVERSEAS SALES



dustry, which we regard as a sign that sluggish demand has finally bottomed. To stay ahead of competitors, we intend to inject efforts to explore new customers in new fields such as TV receivers (set-top boxes) and base stations that have become part of the social infrastructure and for which we already have launched businesses, while paying careful attention to trends in the earlier fields of smartphones and tablet terminals.

Furthermore, to address a surge in labor costs at overseas production bases, we developed and started sales of new products to reduce production costs in partnership with other companies in the fields of FA and robots, about which we are receiving many inquiries and

recognizing considerable potential. As these products will be custom-made for each customer's production structure, it will take some time for the production. However, we intend to expand sales of such high-value-added products.

For the fiscal year ending March 31, 2015, we will address a recovery of demand in the electronics industry, make proposals to address new emerging needs and capitalize on all opportunities that are created via the development of new fields to connect such opportunities to receiving orders, thereby aiming to achieve our targets.

Please explain the status of the mid-term management plan "AIM2015." Are you seeing solid leads?

I feel that the global support capabilities of the DJK Group are being strengthened steadily drawing on our multi-functional and engineering capabilities.

In the mid-term management plan "AIM2015," under the vision of "Aggressive Innovation for Multi-functional Global Business," the DJK Group conducted structural reforms with five core businesses as pillars, aiming to shift to a flexible and agile "business axis" system. Among other things, I recognize that the DJK Group's "global support capabilities" for nurturing core businesses are steadily becoming stronger.

Especially during the fiscal year ended March 31, 2014, our businesses in Mexico contributed significantly to the DJK Group's business results. At local operational

sites, the manufacturing factories of Japanese auto makers opened one after another. DJK quickly opened its office and put the business support system in place, which I believe helped our customers.

We built an office as an advance investment in Ahmedabad in northwest India, which has become a valuable investment as planned given that Japanese companies have been making full-scale business expansion in the Gujarat industrial area.

We made our business base in Hanoi, Vietnam, into a local corporation in May 2013, thereby successfully re-

ceiving large orders related to major local construction and procurement- a manifestation of the DJK Group's engineering-based group strengths and high added value.

Furthermore, the DJK Group has developed a business model that proposes, as a package, local material procurement in India, Malaysia and Europe, procurement of equipment and devices from a third-party country and delivery as an integrated system, which is becoming possible in North America and Mexico. In accumulating these business results, the DJK Group's staff has gained a strong awareness of receiving business orders as a service package. I feel that the DJK Group's businesses are successfully developing beyond regional borders to address customer requests.

With regard to the qualitative targets of "Establish a foothold in new growth markets" and "Cultivate new energy-related businesses and ensure superiority in them," among others, we installed DJK's second solar

power plant in Iida, Nagano Prefecture, in March 2014, expanding our electricity sales business. Its specific fruits include our steadily accumulating related expertise. Also, our compact binary power generation system has been well received.

To shift to our business axis management, we started formulating and implementing specific sales strategies by business axis during the first half of the fiscal year ended March 31, 2014. Specifically, during the second half, we launched the pharmaceuticals business axis as a pilot case. In each business, by developing a system beyond regional borders, employees' awareness has been changing significantly. With a more open corporate culture, I feel that good results are soon to be born. During the fiscal year ending March 31, 2015, toward a full-scale shift to business axis management, we plan to further reinforce our in-house organizational structure.

Please explain your concept of CSR (corporate social responsibility) management.

I believe our daily business activities based on DJK's founding spirit are linked to CSR management and that our initiatives aiming for new growth will become elements of social contribution.

As the globalization of corporate activities progresses, the CSR awareness is on the rise. DJK, based on its founding spirit, has been developing businesses with the concerted efforts of the entire group. I believe such

daily business activities based on DJK's founding spirit are linked to CSR management. Currently, the DJK Group has more than 1,000 employees working at various locations worldwide and over 300 local hires over-

"AIM2015" TARGET

(Millions of yen)

	2014 (Plan)	2014 (Results)	2015 (Plan)	2016 (Plan)
Net sales	130,000	122,102	140,000	155,000
Operating income	4,600	4,074	5,000	5,700
Net income	3,000	2,459	3,200	3,700
Total assets	84,000	81,443	88,000	92,000
Shareholders' equity	31,000	31,104	33,000	36,000
Interest-bearing debt	8,000	8,809	8,000	8,000
Return on equity(%)	10.0	8.2	10.0	10.7

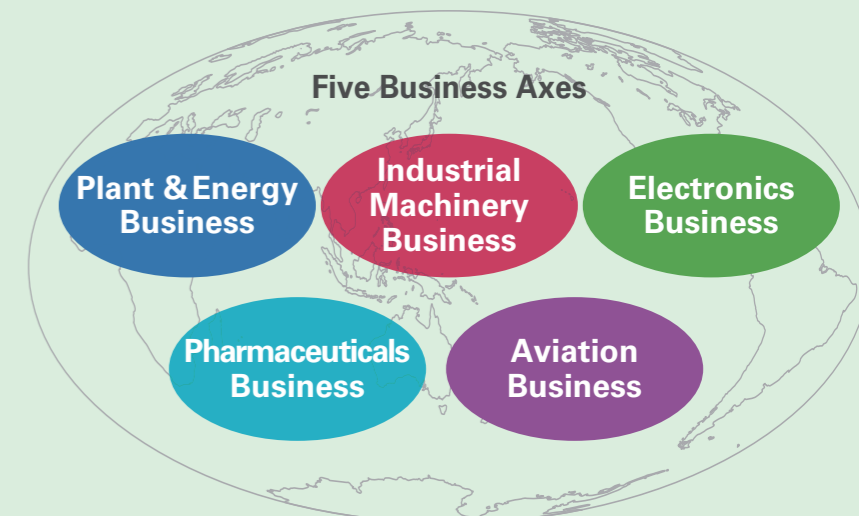
"AIM2015" BASIC CONCEPT

1. Expanding Business through the Shift to Business Axis Management

- 1) Thoroughly pursue and seize global business opportunities
- 2) Create a wide range of sales/marketing capabilities, engineering-based group strengths and high added value

2. Shifting to Business Axis Management and Strengthening as well as Increasing Efficiency of Corporate Management

- 1) Streamlining and transformation of the business axis management system
- 2) Raise awareness and develop human resources
- 3) Strengthen financial position



seas. To reinforce overseas businesses, we not only ensure sufficient personnel but also conduct regular training for local hires with such themes as DJK's founding spirit and management policies. While disseminating our corporate philosophy and culture, we try to nurture human resources who are strong in handling local businesses.

Furthermore, the DJK Group is developing businesses that can contribute to conservation of the global environment through specific business activities. For exam-

ple, we are expanding renewable energy-related businesses such as the mega solar power system business and sales of compact binary power generation system, and handling superior materials that can treat wastewater and waste fluid.

We will continue to aggressively utilize materials and products that can contribute to social contribution and conduct CSR-conscious business management.

Finally, what message would you like to send to your stakeholders?

For the fiscal year ending March 31, 2015, we will rebuild and solidify our electronics business, while maintaining favorable business flows, and aim to achieve the targets for the second year of the mid-term management plan.

For the first year under the mid-term management plan "AIM2015," our electronics business did not get gain momentum, causing performance results lower than the plan's targets, whereas other businesses and various measures progressed favorably, which will lead to our future growth. In the fiscal year ending March 31, 2015, the second year of the management plan, we intend to rebuild and solidify our businesses, while carefully watching the trend in the electronics business, and in China, where the composition ratio of the electronics business is especially high, strengthen the automobile-

related, pharmaceutical and environment-related industries to balance the business composition. In addition, while maintaining the momentum of the businesses that are showing favorable progress with our group-wide efforts and developing service package proposal-type businesses in broad geographical areas, we will further expand the DJK Group's business scale and strengthen its profit-earning capacity to achieve the performance targets for the plan's second year.

We ask that our stakeholders continue to support us in our endeavors in view of the DJK Group's underlying growth potential.



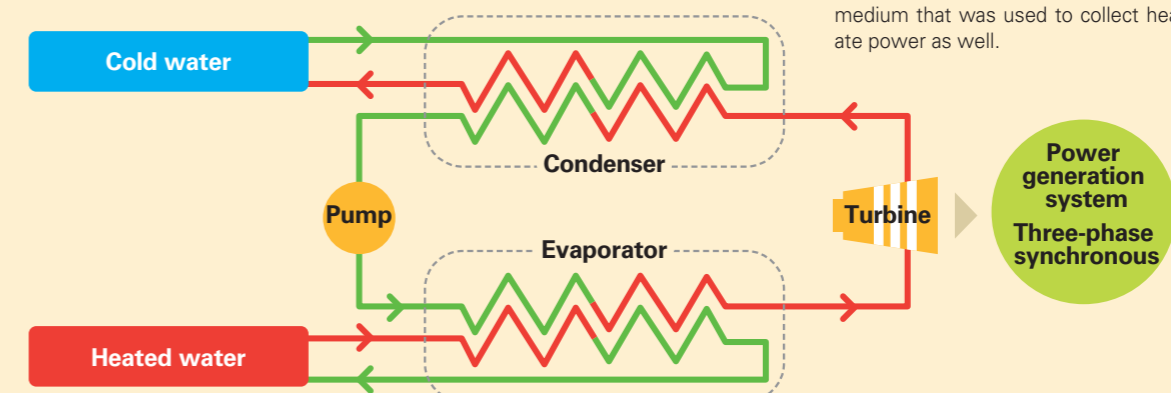
Wasted Thermal Energy Drawing Attention



With the recent rise in demand for conversion to renewable energy and decentralized energy, a compact binary power generation system that adopts the Organic Rankine Cycle (ORC), which converts wasted thermal energy to electric energy, is drawing much attention.

In April 2014, DJK concluded an Exclusive Manufacturing and Marketing Agreement for Japan's Waste Heat Recovery Market with Access Energy, a leading supplier of compact ORC systems, thereby establishing an integrated system of production, sales and service. We will strive to expand sales of the ORC systems to municipalities and corporations that aim for the effective use of wasted thermal energy such as geothermal energy, heat from hot springs, waste heat from combustion and waste heat from industrial plants and factories.

Principle of Organic Rankine Cycle



PLANT & ENERGY BUSINESS

Business Fields

Machinery and equipment for energy development and production, oil and gas refining, chemicals, engineering, construction, and pulp and paper.

Demand for facilities is predicted to remain steady despite a decrease in sales from large-scale projects for which orders had already been received.

Although we received large-scale orders of facilities and equipment for various overseas plants through leading engineering companies, orders received declined due to fewer large-scale orders for various types of plant equipment for petroleum companies. Net sales decreased because of lower sales recorded from large-scale orders that already had been received despite the delivery of facilities and equipment for overseas fertilizer plants and liquefied gas plants. Projecting that solid demand for equipment will remain, we will continue to focus on sales activities.

Description of Business

Against the backdrop of its rich experience and solid technologies accumulated over the years, DJK has actively addressed diverse tasks and achieved considerable results in such business fields as energy conservation, petroleum substitute energy and new energy. In addition, DJK has provided fine-tuned services for its customers from gas and petroleum refining plants, petrochemical plants, construction and maintenance, to consulting services for soil remediation.

In the fields related to paper and pulp manufacturing, we handle a wide range of equipment by manufacturing process and provide various types of machinery including environment-related equipment.

Orders received

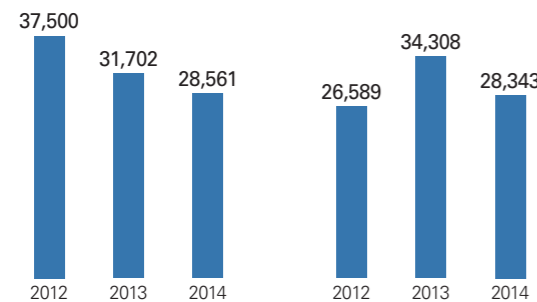
28,561

(Millions of yen)

Net sales

28,343

(Millions of yen)



INDUSTRIAL MACHINERY BUSINESS

Business Fields

Machinery and equipment for plastics, rubber, automobiles, steel, pharmaceuticals, food, and aviation industries.

Demand for equipment intended for overseas automobile-related industries and the domestic pharmaceutical industry increased.

Orders received and net sales both increased because of the steady demand for equipment for automobile-related industries mainly in overseas markets and favorable demand for the domestic pharmaceutical industry.

Given the steady demand for various kinds of manufacturing equipment and peripheral equipment associated with an increase in the production of automobile parts in emerging countries and the favorable domestic demand for pharmaceutical filling devices and packaging equipment, steady orders received are projected.

Description of Business

DJK's FA systems, flexible manufacturing systems (FMSs), and various automated assembly lines have been highly acclaimed by many customers in the field where they seek enhanced efficiency, labor-saving, and streamlining. DJK handles plastic/rubber molding machines, metal processing machines, and ceramic processing machines in the automobile and consumer electronics-related fields. Meanwhile, as for pharmaceutical and food manufacturing, DJK handles a variety of equipment and products including pharmaceutical filling devices, various types of inspection equipment, and the latest packaging production lines.

As for LIB manufacturing, DJK handles the incinerators and drying furnaces that are indispensable in manufacturing the raw materials of secondary batteries. DJK also supplies ground-support equipment and other airport facility-related equipment for the aviation industry.

Orders received

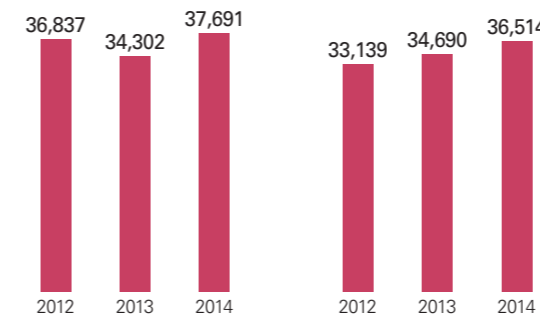
37,691

(Millions of yen)

Net sales

36,514

(Millions of yen)



ELECTRONICS BUSINESS

Business Fields

Machinery and equipment for the industries of electronics, IT, electric machinery, precision, optical, audio and musical instruments.

Demand for production equipment to manufacturers of IT and digital devices remained at the same level.

Although demand for electronic parts mounting equipment, circuit board printers and various testing equipment for manufacturers of IT and digital devices continued to be favorable in China and South Korea until two years ago, such demand was level during the fiscal year under review, resulting in a decrease in orders received. However, we maintained the same level of net sales as that for the previous year. Via our efforts to explore demand for equipment in new fields, we will strive to acquire new orders.

Description of Business

In the fields of surface mounting technology (SMT) and semiconductor/LC module assembly, DJK comprehensively provides various types of PCB inspection equipment, peripheral equipment and electronic parts around its core circuit formation technology through the reform of production processes. DJK proposes new business models adapted to the times by fully demonstrating its originally developed domestic and global networks.

Orders received

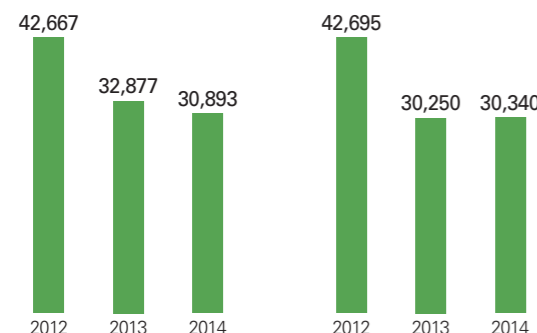
30,893

(Millions of yen)

Net sales

30,340

(Millions of yen)



OVERSEAS COMPANY

Business Fields

Machinery and equipment sold by overseas branches and subsidiaries.

Despite steady demand for equipment mainly in North and Central America, sales of equipment in Asia were sluggish.

Although orders received increased as demand for equipment for automobile-related industries progressed steadily mainly in North and Central America, sales of equipment related to mounting electronic parts in Asia decreased, which led to a decrease in net sales. However, we predict capital investments to continue mainly throughout Asia and in emerging countries elsewhere. In response to the demand in each region, we will further develop sales activities.

Description of Business

DJK manages its overseas offices in 36 cities in 18 countries around the world. The DJK headquarters in each area of the four axes network (China, Southeast Asia and India, the Americas, and Europe) coordinates with each other to implement business activities. In addition to sales of various kinds of machinery and equipment handled by the DJK Group in the respective areas, each headquarters sells merchandise that it directly purchases locally.

Orders received

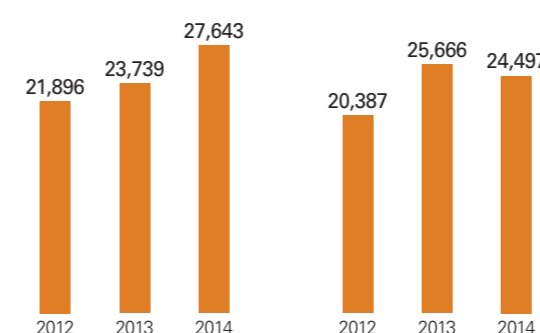
27,643

(Millions of yen)

Net sales

24,497

(Millions of yen)





OVERSEAS

OFFICES

- **Seoul Branch**
TEL: +82-2-528-1400
- **Singapore Branch**
TEL: +65-6659-0720
- **Qatar Representative Office**
TEL: +974-4410-1674
- **Malaysia Regional Office**
TEL: +60-086-339-124

SIGNIFICANT SUBSIDIARIES

DJK EUROPE GMBH

- **Headquarters (Frankfurt)**
TEL: +49-6196-776-14-18
- **Prague Branch**
TEL: +420-233-320-090
- **Budapest Branch**
TEL: +36-1-235-0323

DAIICHI JITSUGYO ASIA PTE. LTD.

- **Headquarters**
TEL: +65-6338-3732

DAIICHI JITSUGYO (THAILAND) CO., LTD.

- **Headquarters (Bangkok)**
TEL: +66-2-643-8118
- **New Delhi Branch**
TEL: +91-12-4426-6080
- **Bangalore Branch**
TEL: +91-80-4919-1515
- **Ahmedabad Office**
TEL: +91-79-4005-5704
- **Ho Chi Minh Office**
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DAIICHI JITSUGYO (PHILIPPINES), INC.

- **Headquarters**
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DJK FACTORY SOLUTIONS (PHILIPPINES), INC.

- **Headquarters**
TEL: +63-49-544-0229

DAIICHI JITSUGYO (MALAYSIA) SDN. BHD.

- **Headquarters**
TEL: +60-3-2070-6913

DAIICHI JITSUGYO (VIETNAM) CO., LTD.

- **Headquarters**
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PT. DJK INDONESIA

- **Headquarters**
TEL: +62-21-390-4930

SHANGHAI YISHI TRADING CO., LTD.

- **Headquarters (Shanghai)**
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- **Tianjin Office**
TEL: +86-22-2840-8723
- **Suzhou Office**
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- **Chongqing Office**
TEL: +86-23-6779-7543
- **Wuhan Office**
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- **Shenyang Office**
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DAIICHI JITSUGYO (HONG KONG) LIMITED

- **Headquarters**
TEL: +852-2802-8233

DAIICHI JITSUGYO (GUANGZHOU) TRADING CO., LTD.

- **Headquarters (Guangzhou)**
TEL: +86-20-3877-2405
- **Shenzhen Office**
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DJK (TAIWAN) CORP.

- **Headquarters**
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TEL: +1-630-875-0101
- **Houston Office**
TEL: +1-713-682-1571
- **Knoxville Office**
TEL: +1-865-983-7042

DAIICHI JITSUGYO PUERTO RICO, INC.

- **Headquarters**
TEL: +1-787-746-5396

DJK GLOBAL MEXICO, S.A. DE C.V.

- **Headquarters**
TEL: +52-442-217-4975

DAIICHI JITSUGYO DO BRASIL COMERCIO DE MAQUINAS LTDA.

- **Headquarters (Sao paulo)**
TEL: +55-11-3284-1500
- **Manaus Office**
TEL: +55-92-3302-2045

SIGNIFICANT AFFILIATE

SHIRAGANE PLATING TECHNOLOGY (CHANGZHOU) CO., LTD.

- **Headquarters**
TEL: +86-519-8899-8882

SIGNIFICANT SUBSIDIARIES

DAIICHI MECHA-TECH CORPORATION

- **Headquarters**
TEL: +81-48-222-1692

DAIICHI JITSUGYO VISWILL CO., LTD.

- **Headquarters**
TEL: +81-6-6378-6115

DAIICHI ENGINEERING CO., LTD.

- **Headquarters**
TEL: +81-3-3288-1951

FLOW DYNAMICS, INC.

- **Headquarters**
TEL: +81-3-5214-8638

SIGNIFICANT AFFILIATES

SULZER DAIICHI K.K.

- **Headquarters**
TEL: +81-3-6272-8980

CAMERON JAPAN LTD.

- **Headquarters**
TEL: +81-3-6893-4210

ASANO LABORATORIES CO., LTD.

- **Headquarters**
TEL: +81-561-38-1211

DOMESTIC

HEADQUARTERS(Tokyo)

- **Headquarters**
TEL: +81-3-5214-8500 (Information desk)

BRANCHES

- **Osaka Branch**
TEL: +81-6-6366-2800
- **Nagoya Branch**
TEL: +81-52-201-5471
- **Sapporo Branch**
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- **Tohoku Branch**
TEL: +81-22-266-2366
- **Hiroshima Branch**
TEL: +81-82-248-0295
- **Fukuoka Branch**
TEL: +81-92-441-1565

Headquarters and Branches



BASIC CORPORATE GOVERNANCE POLICY

From the perspective of reinforcing our corporate capabilities to survive global competition, we place 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 six 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 seven 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.

Currently, the Company does not appoint outside directors. However, the Company does appoint people external to its organization as outside Audit &

Supervisory Board members and the audit process is carried from an objective point of view based on the common sense, experience, and insight of these outside Audit & Supervisory Board members. Based on this audit system, the Company believes that it has established an adequate system in terms of management oversight.

The Company uses an Audit & Supervisory Board system comprised of four 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

CORPORATE GOVERNANCE SYSTEM



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 IR-PR 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 Company Group 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 Articles 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, etc. records.

3. Systems providing rules to manage possible losses and other matters

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 re-presentative 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 corporate principles, each operating section shall work toward achieving the goals of the plan. In addition, each operating section shall 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 recognize 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) 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.
- (2) The Company will appoint a director in charge of business administration of the Group companies, which will be managed based on prior consultation meetings and a reporting system. If necessary the director in charge will undertake monitoring.
- (3) 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.

7. System for requesting staff to aid Audit & Supervisory Board members and the independence of those staff members from the influence of directors

- (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 to report to Audit & Supervisory Board members, system for making other reports to Audit & Supervisory Board members, and system to enable Audit & Supervisory Board members to do an effective audit

- (1) Directors, executive officers, and employees shall report the following important items regarding the Company's business or influence on business performance on a case-by-case basis.
 - Activities of the sections related to the establishment of the Company's internal control system.
 - The Company's principal accounting policies and standards 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.
- (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.

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)
	2014	2013	2012	2011	2010	2014
For the year:						
Net sales	¥122,102	¥128,229	¥125,502	¥108,079	¥ 85,058	\$ 1,186,386
Gross profit	17,363	16,710	16,813	15,224	11,104	168,706
Operating income	4,074	4,590	5,098	4,243	941	39,591
Net income	2,459	3,051	2,643	2,448	363	23,900
Comprehensive income	3,430	4,485	3,008	2,159	600	33,332
Overseas sales:	61,387	67,441	65,310	44,819	23,380	596,459
Asia	47,164	58,839	52,646	36,706	19,284	458,267
Europe	1,527	2,289	2,551	1,886	1,656	14,840
North and Central America	8,068	5,197	5,511	4,546	1,423	78,397
Other	4,626	1,114	4,600	1,678	1,017	44,953
Depreciation and amortization	352	316	353	356	326	3,426
Capital expenditures	1,052	1,065	427	381	443	10,222
At year-end:						
Total assets	¥ 81,443	¥ 81,478	¥ 83,759	¥ 73,322	¥ 55,096	\$ 791,325
Working capital	21,935	20,322	18,855	17,180	15,590	213,128
Interest-bearing debt	8,809	7,486	14,942	10,560	5,489	85,596
Total equity	31,197	29,013	26,167	23,777	22,082	303,123
Per share of common stock (in yen and U.S. dollars):						
Net income	¥ 46.45	¥ 57.97	¥ 50.55	¥ 46.90	¥ 6.97	\$ 0.45
Cash dividends	18	15	14	13	7	0.17
Shareholders' equity	586.85	545.78	485.23	445.88	416.63	5.70
Other statistics:						
Number of shares of common stock outstanding (in thousands)	53,002	52,811	52,565	52,213	52,119	
Number of employees	1,069	1,043	1,008	992	974	
Key ratios (%):						
Gross profit margin	14.2	13.0	13.4	14.1	13.1	
Operating income margin	3.3	3.6	4.1	3.9	1.1	
Return on sales	2.0	2.4	2.1	2.3	0.4	
Return on assets	3.0	3.7	3.4	3.8	0.6	
Return on equity	8.2	11.2	10.8	10.9	1.7	
Asset turnover (times)	1.50	1.55	1.60	1.68	1.43	
Current ratio	145.4	139.8	133.1	135.3	148.5	
Equity ratio	38.2	35.4	30.5	31.8	39.4	
Debt-to-equity ratio	0.28	0.26	0.59	0.45	0.25	

Notes: 1. U.S. dollar figures have been converted from Japanese yen, for convenience only, at the rate of ¥102.92 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 saw a moderate recovery trend, reflecting continuing high stock prices and yen depreciation along with the effects of economic measures taken by the Japanese government, which helped improve the export environment and corporate revenues and led to an uptick in consumer consumption. On the other hand, yen depreciation pushed up imported raw material and product prices and there was concern over sluggish economies in emerging countries, which continued to pose uncertainty.

In these circumstances, all employees and executives of the DJK Group strove to focus on sales activities. As a result, orders received increased 1.1% year on year to ¥127,022 million and net sales decreased 4.8% to ¥122,102 million. Operating income declined ¥515 million, or 11.2%, to ¥4,074 million, and net income decreased ¥591 million, or 19.4%, to ¥2,459 million.

Performance by business segment was as follows.

(1) Plant & Energy Business

Sales from large-scale orders that already had been received for equipment for petrochemical plants and overseas plants through leading engineering companies decreased. Net sales fell ¥5,964 million, or 17.4%, to ¥28,343 million, and segment income (operating income) decreased ¥220 million, or 14.5%, to ¥1,299 million.

(2) Electronics Business

Demand for equipment for mounting electronic parts for manufacturers of IT and digital devices remained level with the previous year. Net sales increased ¥90 million, or 0.3%, to ¥30,340 million, and segment income (operating income) decreased ¥63 million, or 3.7%, to ¥1,634 million.

(3) Industrial Machinery Business

Despite fewer large-scale orders received, demand for equipment mainly for overseas automobile-related industries was solid and sales of manufacturing equipment for the pharmaceutical industry were

recorded. Net sales increased ¥1,824 million, or 5.3%, to ¥36,514 million, and segment income (operating income) increased ¥539 million, or 23.5%, to ¥2,837 million.

(4) Overseas Company

Sales of equipment for mounting electronic parts in Asia decreased. Net sales fell ¥1,168 million, or 4.6%, to ¥24,497 million, and segment income (operating income) decreased ¥19 million, or 1.8%, to ¥1,069 million.

FINANCIAL POSITION

As of March 31, 2014, total assets amounted to ¥81,443 million, decreasing ¥35 million, or 0.0% year on year. Current assets decreased ¥1,168 million, or 1.6% year on year, to ¥70,276 million, whereas fixed assets increased ¥1,133 million, or 11.3% year on year, to ¥11,166 million.

The decrease in current assets was mainly attributable to the decrease in notes and accounts receivable due to the collection of accounts receivable. The increase in fixed assets was mainly attributable to the increase in the book value of investment securities, which resulted from the rise of stock prices and the acquisition of the solar power plant facilities and equipment in Iida, Nagano, Prefecture.

Total liabilities amounted to ¥50,245 million, decreasing ¥2,219 million, or 4.2%, from the previous year. Current liabilities decreased ¥2,781 million, or 5.4%, to ¥48,341 million, whereas long-term liabilities increased ¥562 million, or 41.9%, to ¥1,904 million.

The main factor of the decrease in current liabilities was a decrease in notes and accounts payable—trade mainly due to the payments of trade payables. The main factor of the increase in long-term liabilities was net defined benefit liability of ¥562 million recorded in line with adoption of the revised "Accounting Standard for Retirement Benefits."

Total equity amounted to ¥31,197 million, increasing ¥2,183 million, or 7.5%, from the previous year. The main factor of this increase was the reporting of net income of ¥2,459 million despite the payment of dividends. As a result, the equity ratio was 38.2%, which is 2.8 percentage points higher than the 35.4% of the previous fiscal year.

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

Interest-bearing debt amounted to ¥8,809 million, increasing ¥1,323 million, or 17.7%, year on year. This consists of short-term bank loans of ¥8,145 million (including the current portion of long-term debt) and other debt of ¥664 million. DJK took on long-term debt to acquire photovoltaic power generation facilities and equipment. The debt-to-equity ratio (DER) at the end of the fiscal year under review was 0.28 times, up slightly from 0.26 times at the end of the previous fiscal year.

In the near future, we intend to 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 AIM2015.

Operating Activities

Net cash provided by operating activities totaled ¥911 million, a decrease of ¥7,870 million from the previous fiscal year. Despite the payment of trade payables, we recorded net cash provided by operating activities mainly because of the recording of income before income taxes and minority interests and the collection of accounts receivable.

Investing Activities

Net cash used in investing activities totaled ¥888 million, increasing ¥621 million from the previous fiscal year. The principal cash outflows were the acquisition of property, plant and equipment and the increase in loans receivable.

Financing Activities

Net cash provided by financing activities totaled ¥423 million, increasing ¥8,745 million from net cash used in financing activities for the previous fiscal year. Despite the payment of dividends, net cash provided by financing activities was recorded mainly due to the increase in bank loans.

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, AIM2015, which began in April 2013, 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 was 50.3%, accounting for over half of the total, despite a slight decline from 52.6% in the previous fiscal year. With the steady implementation of the mid-term management plan AIM2015, it is expected that the overseas sales in net sales will continue to 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, 2014 amounted to ¥8,809 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, 2014, the total sales receivables of the DJK Group amounted to ¥34,309 million, or 42.1% of total assets. As a result, DJK is exposed to the risk of losses due to the credit of its clients worsening or their businesses failing. 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 client 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 AIM2015, the mid-term management plan which began in April 2013, the DJK Group's basic policy is to shift its focus to "business axis" management for further business expansion and to reinforce its operations and make them more efficient.

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, 2014

ASSETS	Millions of yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
Current assets:			
Cash and cash equivalents (Note 14)	¥ 13,585	¥ 12,894	\$ 131,997
Time deposits (Note 14)	72	80	704
Receivables (Note 14):			
Notes receivable	3,157	4,161	30,679
Accounts receivable	30,936	34,163	300,592
Unconsolidated subsidiaries and associated companies	198	160	1,928
Other	3,236	1,548	31,448
Lease investment assets (Note 13)	86	145	838
Inventories (Note 4)	9,861	8,850	95,813
Deferred tax assets (Note 10)	522	538	5,074
Accounts prepaid	7,515	7,009	73,022
Other current assets	1,351	1,950	13,128
Allowance for doubtful accounts	(247)	(56)	(2,402)
Total current assets	70,276	71,445	682,825
Property, plant and equipment (Note 5):			
Land	610	610	5,935
Buildings and structures	1,309	1,143	12,728
Machinery and equipment	1,444	1,009	14,031
Furniture and fixtures	945	834	9,191
Leased assets (Note 13)	610	636	5,927
Construction in progress	326	220	3,173
Total	5,247	4,455	50,987
Accumulated depreciation	(2,092)	(1,911)	(20,328)
Net property, plant and equipment	3,155	2,544	30,659
Investment and other assets:			
Investment securities (Notes 3 and 14)	4,961	4,613	48,211
Investment in and advances to unconsolidated subsidiaries and associated companies	1,686	1,529	16,383
Long-term deposits	905	946	8,794
Deferred tax assets (Note 10)	149	83	1,450
Other assets	548	539	5,331
Allowance for doubtful accounts	(239)	(223)	(2,331)
Total investment and other assets	8,011	7,489	77,840
TOTAL	¥ 81,443	¥ 81,478	\$ 791,325

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
Current liabilities:			
Short-term bank loans (Notes 6 and 14)	¥ 8,041	¥ 6,939	\$ 78,132
Current portion of long-term debt (Notes 6 and 14)	104	60	1,010
Payables (Note 14):			
Notes payable	829	735	8,062
Accounts payable	25,682	30,296	249,539
Unconsolidated subsidiaries and associated companies	759	1,197	7,381
Other	180	26	1,749
Income taxes payable	1,064	1,244	10,345
Accrued expenses	1,163	1,157	11,308
Advances received	9,605	8,574	93,327
Allowance for after-sales service	225	213	2,193
Other current liabilities	683	676	6,645
Total current liabilities	48,341	51,122	469,697
Long-term liabilities:			
Long-term debt (Notes 6 and 14)	546	350	5,305
Liability for retirement benefits (Note 7)	605	245	5,879
Deferred tax liabilities (Note 10)	526	381	5,112
Other long-term liabilities	227	365	2,208
Total long-term liabilities	1,904	1,342	18,504
Commitments and contingent liabilities (Notes 13, 15 and 16)			
Equity (Notes 8, 9 and 19)			
Common stock, authorized, 160,000,000 shares; issued, 55,432,000 shares in 2014 and 2013	5,105	5,105	49,601
Capital surplus	3,786	3,786	36,787
Stock acquisition rights	93	96	905
Retained earnings	21,808	20,258	211,895
Treasury stock — at cost, 2,429,663 shares in 2014 and 2,550,240 shares in 2013	(1,029)	(1,079)	(9,999)
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	1,128	844	10,969
Deferred (loss) gain on derivatives under hedge accounting	(15)	20	(152)
Foreign currency translation adjustments	646	(72)	6,278
Defined retirement benefit plans	(325)		(3,161)
Total	31,197	28,958	303,123
Minority interests		55	
Total equity	31,197	29,013	303,123
TOTAL	¥ 81,443	¥ 81,478	\$ 791,325

CONSOLIDATED STATEMENT OF INCOME

DAIICHI JITSUGYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Year ended March 31, 2014

	Millions of yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
Net sales	¥122,102	¥ 128,229	\$1,186,386
Cost of sales	104,739	111,519	1,017,679
Gross profit	17,363	16,710	168,706
Selling, general and administrative expenses (Notes 11 and 12)	13,288	12,119	129,115
Operating income	4,074	4,590	39,591
Other income (expenses):			
Interest and dividend income	226	165	2,204
Interest expense	(94)	(77)	(915)
Purchase discount	154	175	1,505
Amortization of negative goodwill	27	841	269
Gain (loss) on sales on property, plant and equipment	0	(2)	0
Gain on sales of investment securities	43		420
Loss on liquidation of subsidiaries and affiliates	(7)		(77)
Impairment loss	(29)		(289)
Other – net	115	67	1,126
Other income – net	437	1,169	4,246
Income before income taxes and minority interests	4,511	5,759	43,837
Income taxes (Note 10):			
Current	1,917	1,814	18,629
Prior periods		353	
Deferred	129	277	1,258
Total income taxes	2,046	2,466	19,888
Net income before minority interests	2,464	3,313	23,949
Minority interests in net income	5	262	49
Net income	¥ 2,459	¥ 3,051	\$ 23,900

Per share of common stock (Notes 2.s and 18)

	Yen	U.S. Dollars (Note 1)
Basic net income	¥ 46.45	¥ 57.97
Diluted net income	46.10	57.60
Cash dividends applicable to the year	18.00	15.00

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

DAIICHI JITSUGYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Year ended March 31, 2014

	Millions of yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
Net income before minority interests	¥ 2,464	¥ 3,313	\$ 23,949
Other comprehensive income (Note 17):			
Unrealized gain on available-for-sale securities	284	500	2,768
Deferred (loss) gain on derivatives under hedge accounting	(36)	20	(349)
Foreign currency translation adjustments	660	632	6,421
Share of other comprehensive income in associates	55	18	542
Total other comprehensive income	965	1,172	9,382
Comprehensive income (Note 17)	¥ 3,430	¥ 4,485	\$ 33,332
Total comprehensive income attributable to (Note 17):			
Owners of the parent	¥ 3,427	¥ 4,077	\$ 33,302
Minority interests	3	408	29

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

DAIICHI JITSUGYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Year ended March 31, 2014

	Thousands							Millions of yen					
	Number of shares of common stock outstanding	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss)						
							Unrealized gain on available- for-sale securities	Deferred gain on derivatives under hedge accounting	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Minority interests	Total equity
BALANCE, APRIL 1, 2012	52,595	¥5,105	¥3,786	¥100	¥18,063	¥(1,214)	¥ 343	¥ (0)	¥ (577)		¥25,607	¥560	¥26,167
Net income					3,051						3,051		3,051
Cash dividends, ¥16.00 per share					(841)						(841)		(841)
Purchase of treasury stock	(10)						(3)				(3)		(3)
Disposal of treasury stock	326				(15)		138				123		123
Net change in the year				(4)			500	20	505		1,021	(505)	516
BALANCE, MARCH 31, 2013	52,881	5,105	3,786	96	20,258	(1,079)	844	20	(72)		28,958	55	29,013
Net income					2,459						2,459		2,459
Cash dividends, ¥18.00 per share					(899)						(899)		(899)
Purchase of treasury stock	(85)						(36)				(36)		(36)
Disposal of treasury stock	206				(10)		87				76		76
Net change in the year				(3)			284	(36)	718	¥(325)	639	(55)	583
BALANCE, MARCH 31, 2014	53,002	¥5,105	¥3,786	¥ 93	¥21,808	¥(1,029)	¥ 1,128	¥(15)	¥ 646	¥(325)	¥31,197		¥31,197

	Thousands of U.S. Dollars (Note 1)												
	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss)					Total	Minority interests	Total equity
						Unrealized gain on available- for-sale securities	Deferred gain on derivatives under hedge accounting	Foreign currency translation adjustments	Defined retirement benefit plans	Total			
BALANCE, MARCH 31, 2013	\$ 49,601	\$ 36,787	\$ 937	\$ 196,837	\$ (10,490)	\$ 8,201	\$ 197	\$ (705)			\$ 281,366	\$ 539	\$ 281,906
Net income				23,900							23,900		23,900
Cash dividends, \$0.17 per share				(8,741)							(8,741)		(8,741)
Purchase of treasury stock					(357)						(357)		(357)
Disposal of treasury stock				(100)	847						747		747
Net change in the year			(32)		2,768	(349)	6,984	\$(3,161)			6,208	(539)	5,669
BALANCE, MARCH 31, 2014	\$ 49,601	\$ 36,787	\$ 905	\$ 211,895	\$(9,999)	\$10,969	\$(152)	\$ 6,278	\$(3,161)		\$ 303,123		\$ 303,123

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

DAIICHI JITSUGYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Year ended March 31, 2014

	Millions of yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
Operating activities:			
Income before income taxes and minority interests	¥ 4,511	¥ 5,759	\$ 43,837
Adjustments for:			
Income taxes – paid	(2,105)	(2,640)	(20,456)
Depreciation and amortization	352	316	3,426
Impairment loss	29		289
Amortization of negative goodwill	(27)	(841)	(269)
Changes in operating assets and liabilities:			
Increase (decrease) in allowance for after-sales service	12	(365)	116
Decrease in notes and accounts receivable – trade	4,715	5,220	45,813
(Increase) decrease in advance payments to suppliers	(387)	150	(3,760)
(Increase) decrease in inventories	(775)	483	(7,539)
(Decrease) increase in notes and accounts payable – trade	(5,254)	1,614	(51,058)
Increase in advances from customers	820	511	7,971
Other – net	(979)	(1,426)	(9,513)
Total adjustments	(3,600)	3,021	(34,981)
Net cash provided by operating activities	911	8,781	8,856
Investing activities:			
Acquisition of property, plant and equipment	(475)	(802)	(4,623)
Proceeds from sales of property, plant and equipment	6	19	67
Acquisition of marketable and investment securities	(98)	(164)	(955)
Proceeds from sales of marketable and investment securities	162	3	1,583
Payments of loans receivable	(418)	(59)	(4,071)
Collection of loans receivable	10	11	98
Payments of long-term deposits	(34)	(391)	(337)
Other – net	(40)	(127)	(393)
Net cash used in investing activities	(888)	(1,509)	(8,631)
Financing activities:			
Increase (decrease) in short-term bank loans – net	1,090	(7,818)	10,592
Proceeds from issuance of long-term debt	300	440	2,914
Repayment of long-term debt	(60)	(182)	(582)
Dividends paid	(897)	(838)	(8,718)
Other – net	(8)	78	(87)
Net cash provided by (used in) financing activities	423	(8,321)	4,118
Foreign currency translation adjustments on cash and cash equivalents	244	339	2,370
Net increase (decrease) in cash and cash equivalents	691	(710)	6,714
Cash and cash equivalents, beginning of year	12,894	13,604	125,282
Cash and cash equivalents, end of year	¥ 13,585	¥ 12,894	\$ 131,997

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DAIICHI JITSUGYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Year ended March 31, 2014

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 2013 consolidated financial statements to conform to the classifications used in 2014.

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 ¥102.92 to \$1, the approximate rate of exchange at March 31, 2014. 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, 2014, include the accounts of the Company and its 14 significant (13 in 2013) 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.

An investment in 2 (2 in 2013) associated companies is 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

In May 2006, the Accounting Standards Board of Japan (the “ASBJ”) issued ASBJ Practical Issues Task Force (PITF) No.18, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements”. PITF No.18 prescribes that 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 directly recorded in the equity; 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; and 5) exclusion of minority interests from net income, if contained.

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

In March 2008, the ASBJ issued ASBJ Statement No. 16, “Accounting Standard for Equity Method of Accounting for Investments.” The new 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 directly recorded in equity; (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; and (5) exclusion of minority interests from net income, if contained in net income.

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 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 2 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. 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.

i. 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.

In May 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the accounting standard

for retirement benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

- (a) Under the revised accounting standard, 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 any resulting deficit or surplus is recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).
- (b) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.
- (c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard and guidance for retirement benefits for (a) and (b) above, effective March 31, 2014. As a result, liability for retirement benefits of ¥562 million (\$5,463 thousand) was recorded as of March 31, 2014, and accumulated other comprehensive income for the year ended March 31, 2014, decreased by ¥325 million (\$3,161 thousand).

The Group accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

Effective June 23, 2011, the Company terminated its unfunded retirement allowance plan for all directors and Audit & Supervisory Board Members. The outstanding balance of retirement allowances for directors and Audit & Supervisory Board Members as of March 31, 2011, was reclassified to long-term liabilities in the year ended March 31, 2012.

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.

j. Asset Retirement Obligations

In March 2008, the ASBJ issued ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as 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.

k. Stock Options

In December 2005, the ASBJ issued ASBJ Statement No. 8, "Accounting Standard for Stock Options" and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006. This standard requires companies to measure the cost of employee stock options based on the fair value at the date of grant and recognize compensation expense over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, stock options are presented as stock acquisition rights as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

l. Research and Development Costs

Research and development costs are charged to income as incurred.

m. Leases

(Lessee)

In March 2007, the ASBJ issued ASBJ Statement No.13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased

property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the notes to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases that existed at the transition date and do not transfer ownership of the leased property to the lessee to continue to be accounted for as operating lease transactions.

The Company applied the revised accounting standard effective April 1, 2008. In addition, the Company continues to account for leases that existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions.

(Lessor)

In March 2007, the ASBJ issued ASBJ Statement No.13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 1993.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were treated as sales. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if sold" information was disclosed in the note to the lessor's financial statements. The revised accounting standard requires that all finance leases that are deemed to transfer ownership of the leased property to the lessee be recognized as lease receivables, and that all finance leases that are not deemed to transfer ownership of the leased property to the lessee be recognized as investments in lease.

n. 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.

o. 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.

p. 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.

q. 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.

r. 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.

Interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not measured at market value but the differential paid or received under the swap agreement is recognized and included in interest expense.

s. Per Share Information

Basic net income per share is computed by dividing net income available 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.

t. Accounting Changes and Error Corrections

In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error

Corrections". Accounting treatments under this standard and guidance are as follows:

(1) Changes in Accounting Policies:

When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions in which case the entity shall comply with the specific transitional provisions.

(2) Changes in Presentation

When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation.

(3) Changes in Accounting Estimates

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of Prior-Period Errors

When an error in prior-period financial statements is discovered, those statements are restated.

u. New Accounting Pronouncements

Accounting Standard for Retirement Benefits—On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

Major changes are as follows:

(a) *Treatment in the balance sheet*

Under the current requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, "deficit or surplus"), adjusted by such unrecognized amounts, is recognized as a liability or asset.

Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss shall be recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(b) *Treatment in the statement of income and the statement of comprehensive income*

The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then

recognized in profit or loss in the current period shall be treated as reclassification adjustments.

(c) *Amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases*

The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the

beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard for (a) and (b) above effective March 31, 2014, and expects to apply (c) above from April 1, 2014, and is in the process of measuring the effects of applying the revised accounting standard for (c) above in future applicable periods.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2014 and 2013, consisted of the following:

	Millions of yen		Thousands of U.S. Dollars
	2014	2013	2014
Current:			
Government bonds		¥ 14	
Total		¥ 14	
	Millions of yen		Thousands of U.S. Dollars
	2014	2013	2014
Non-current:			
Marketable equity securities	¥ 4,544	¥ 4,197	\$ 44,153
Government bonds	9		91
Other	408	416	3,966
Total	¥ 4,961	¥ 4,613	\$ 48,211

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

4. INVENTORIES

Inventories at March 31, 2014 and 2013, consisted of the following:

	Millions of yen		Thousands of U.S. Dollars
	2014	2013	2014
Merchandise and finished products	¥8,579	¥7,652	\$ 83,356
Work in process	962	925	9,353
Raw materials and supplies	319	272	3,102
Total	¥9,861	¥8,850	\$ 95,813

5. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment for the years ended March 31, 2014 and 2013.

As a result, the Group recognized an extraordinary impairment loss of ¥29 million (\$289 thousand) in software work in progress account in the year ended March 31, 2014.

The impairment loss was due to discontinuation of a new software introduction plan, which turned out not to be as cost reducing as originally expected, and the book value of the asset was written down to the recoverable amount.

No impairment loss was recognized in 2013.

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

Short-term bank loans at March 31, 2014 and 2013, consisted of notes to bank and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 0.60% to 1.42% and 0.61% to 5.04% at March 31, 2014 and 2013, respectively.

Long-term debt at March 31, 2014 and 2013, consisted of the following:

	Millions of yen		Thousands of U.S. Dollars
	2014	2013	2014
Loan from financial institution, due serially to 2020, with interest rates ranging 0.92% (2014 and 2013)			
Unsecured	¥ 350	¥ 410	\$ 3,400
Loan from financial institution, due serially to 2021, with interest rates ranging 0.85% (2014)			
Unsecured	¥ 300		\$ 2,914
Total	¥ 650	410	\$ 6,315
Less current portion	(104)	(60)	(1,010)
Long-term debt, less current portion	¥ 546	¥ 350	\$ 5,305

Annual maturities of long-term debt as of March 31, 2014, were as follows:

Year ending March 31:	Millions of yen	Thousands of U.S. Dollars
2015	¥ 104	\$ 1,010
2016	104	1,010
2017	104	1,010
2018	104	1,010
2019	104	1,010
2020 and there after	130	1,263
Total	¥ 650	\$ 6,315

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, 2014, were as follows:

	Millions of yen	Thousands of U.S. Dollars
Maximum amount of the loan commitment	¥ 10,000	\$ 97,162
Amount loaned	7,000	68,013
Unused credit balance	¥ 3,000	\$ 29,148

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 Welfare Pension Fund, in which the Company and certain domestic consolidated subsidiaries participate, is a multi-employer defined benefit corporate pension plan.

Assets contributed by an employer participating in the Welfare Pension Fund are not segregated in a separate account or restricted to provide benefits only to employees of that employer. Therefore, the contributions to the multi-employer defined benefit corporate plan are recognized as paid and accounted for as a component of net periodic retirement benefit costs.

The liability for retirement benefits for directors and Audit & Supervisory Board Members was ¥42 million

(\$416 thousand) and ¥33 million at March 31, 2014 and 2013, 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, 2014 and 2013, consisted of the following:

Year Ended March 31, 2014

a. Contributory funded defined benefit pension plan

(1) The changes in defined benefit obligation for the year ended March 31, 2014, were as follows:

	Millions of yen	Thousands of U.S. Dollars
Balance at beginning of year	¥ 2,878	\$ 27,968
Current service cost	168	1,632
Interest cost	40	389
Actuarial losses	37	361
Benefits paid	(177)	(1,723)
Others	38	375
Balance at end of year	¥ 2,985	\$ 29,004

(2) The changes in plan assets for the year ended March 31, 2014, were as follows:

	Millions of yen	Thousands of U.S. Dollars
Balance at beginning of year	¥ 1,942	\$ 18,875
Expected return on plan assets	29	283
Actuarial losses	189	1,838
Contributions from the employer	439	4,267
Benefits paid	(177)	(1,723)
Balance at end of year	¥ 2,422	\$ 23,540

(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
Funded defined benefit obligation	¥ 2,734	\$ 26,571
Plan assets	(2,422)	(23,540)
	311	3,030
Unfunded defined benefit obligation	250	2,432
Net liability arising from defined benefit obligation	¥ 562	\$ 5,463

	Millions of yen	Thousands of U.S. Dollars
Liability for retirement benefits	¥ 562	\$ 5,463
Net liability arising from defined benefit obligation	¥ 562	\$ 5,463

(4) The components of net periodic benefit costs for the year ended March 31, 2014, were as follows:

	Millions of yen	Thousands of U.S. Dollars
Service cost	¥ 168	\$ 1,632
Interest cost	40	389
Expected return on plan assets	(29)	(283)
Amortization of prior service cost	24	241
Recognized actuarial losses	88	855
Others	55	543
Net periodic benefit costs	¥ 347	\$ 3,379

(5) Accumulated other comprehensive income on defined retirement benefit plans as of March 31, 2014

	Millions of yen	Thousands of U.S. Dollars
Unrecognized prior service cost	¥ 271	\$ 2,640
Unrecognized actuarial losses	233	2,269
Total	¥ 505	\$ 4,909

(6) Plan assets

a. Components of plan assets

Plan assets consisted of the following:

Debt investments	45.3%
Equity investments	43.5
General account	6.1
Others	5.1
Total	100.0%

b. 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.

(7) Assumptions used for the year ended March 31, 2014, were set forth as follows:

Discount rate	1.5%
Expected rate of return on plan assets	1.5

8. EQUITY

Since May 1, 2006, 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:

b. Multi-employer defined benefit corporate pension plan

The funded status of the multi-employer defined benefit corporate plan at March 31, 2013 (most recently available information as of March 31, 2014), to which contributions were recorded as net periodic retirement benefit costs, were as follows:

	Millions of yen	Thousands of U.S. Dollars
	2014	2014
Fair value of plan assets	¥ 59,993	\$ 582,915
Pension benefit obligation recorded by pension fund	¥ 73,147	\$ 710,724
Difference	¥ (13,154)	\$ (127,808)

The difference mainly resulted from prior service cost of ¥12,744 million (\$123,831 thousand). The basic part of the prior service cost is amortized over 14 years and 3 months, and the additional part is amortized over 5 years and 10 months.

The Groups' contribution percentage for the multi-employer defined benefit corporate plan at March 31, 2014 was 9.14%. The above contribution ratio does not conform to the actual ratio applied to the Group.

Year Ended March 31, 2013

The liability for retirement benefits at March 31, 2013, consisted of the following:

	Millions of yen
Projected benefit obligation	¥ 2,878
Fair value of plan assets	(1,942)
Unrecognized actuarial gain	(473)
Unrecognized prior service cost	(296)
Prepaid pension cost	(46)
Net liability	¥ 211

The components of net periodic benefit costs for the year ended March 31, 2013, are as follows:

	Millions of yen
Service cost	¥ 238
Interest cost	40
Expected return on plan assets	(22)
Amortization of prior service cost	24
Recognized actuarial loss	102
Premium severance pay	33
Net periodic benefit costs	¥ 416

Assumptions used for the year ended March 31, 2013, are set forth as follows:

Discount rate	1.5%
Expected rate of return on plan assets	1.5%
Amortization period of prior service cost	14 years
Recognition period of actuarial gain/loss	14 years

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 is prescribed as one year rather than two years of normal 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.

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 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 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, 2014, 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 (\$3.04)	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

The stock option activity is as follows:

For the year ended March 31, 2013	2009 Stock Options (Shares)	2011 Stock Options (Shares)	For the year ended March 31, 2014	2009 Stock Options (Shares)	2011 Stock Options (Shares)	2013 Stock Options (Shares)
<u>Non-vested</u>			<u>Non-vested</u>			
March 31, 2012 — Outstanding			March 31, 2013 — Outstanding			125,000
Granted			Granted			
Canceled			Canceled			
Vested			Vested			125,000
March 31, 2013 — Outstanding			March 31, 2014 — Outstanding			
<u>Vested</u>			<u>Vested</u>			
March 31, 2012 — Outstanding	1,422,000	87,000	March 31, 2013 — Outstanding	1,089,000	87,000	
Vested			Vested			125,000
Exercised	(326,000)		Exercised	(188,000)	(18,000)	
Canceled	(7,000)		Canceled	(5,000)	(6,000)	
March 31, 2013 — Outstanding	1,089,000	87,000	March 31, 2014 — Outstanding	896,000	63,000	125,000
			Exercise price	¥ 313 (\$ 3.04)	¥ 1 (\$ 0.01)	¥ 1 (\$ 0.01)
			Average stock price at exercise	¥ 436 (\$ 4.24)	¥ 417 (\$ 4.05)	
			Fair value price at grant date	¥ 64 (\$ 0.62)	¥ 333 (\$ 3.24)	¥ 348 (\$ 3.38)

10. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 38.0% for the years ended March 31, 2014 and 2013. Foreign consolidated subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2014 and 2013, were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2014	2013	2014
Deferred tax assets:			
Allowance for doubtful accounts	¥ 145	¥ 77	\$ 1,410
Allowance for bonus payable	225	220	2,186
Pension and severance costs	238	164	1,312
Evaluation loss on investment securities	79	85	768
Allowance for after-sales service	80	81	781
Investment in and advances to unconsolidated subsidiaries and associated companies	219	219	2,130
Tax loss carryforwards	208	183	2,030
Other	413	503	4,015
Less valuation allowance	(730)	(743)	(7,094)
Total	879	791	8,542
Deferred tax liabilities:			
Deferred gain on sales of property	(17)	(18)	(169)
Unrealized gain on available-for-sale securities	(574)	(413)	(5,581)
Retained earnings in foreign subsidiaries	(86)		(839)
Prepaid pension cost		(24)	
Other	(67)	(119)	(656)
Total	(745)	(575)	(7,247)
Net deferred tax assets	¥ 133	¥ 216	\$ 1,295

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 years ended March 31, 2014 and 2013, is as follows:

	2014	2013
Normal effective statutory tax rate	38.0%	38.0%
Expenses not deductible for income tax purposes	6.3	3.5
Exclusion from charges against revenue	(5.7)	(0.9)
Lower income tax rates applicable to income in certain foreign countries	(3.1)	(2.1)
Overseas income deductible for enterprise tax	(0.1)	(0.1)
Less valuation allowance	(0.1)	4.7
Decrease of deferred tax assets relating to the effective tax rate change	0.7	
Elimination of inter-company dividend income	5.7	
Retained earnings in foreign subsidiaries	1.9	
Amortization of negative goodwill	(0.2)	(5.6)
Income taxes for prior periods	5.8	5.8
Other-net	2.0	(0.8)
Actual effective tax rate	45.4%	42.5%

New tax reform laws enacted in 2014 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2014, from approximately 38% to 35%. The effect of this change was not material.

11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the fiscal years ended March 31, 2014 and 2013, principally consisted of the following:

	Millions of yen		Thousands of U.S. Dollars
	2014	2013	2014
Salaries and fees	¥5,240	¥4,845	\$50,914
Retirement benefit costs	325	361	3,164
Depreciation and amortization	196	178	1,910
Research and development costs	225	186	2,188
Rental expense	1,130	1,019	10,986

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income for the years ended March 31, 2014 and 2013, were ¥225 million (\$2,188 thousand) and ¥186 million, respectively.

13. LEASES

(1) As Lessee

Total rental expenses including lease payments under finance leases for the years ended March 31, 2014 and 2013, were ¥743 million (\$7,220 thousand) and ¥679 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	
	2014	2014	2014	2014
	Finance Leases	Operating Leases	Finance Leases	Operating Leases
Due within one year	¥ 27	¥ 38	\$ 266	\$ 378
Due after one year	90	47	881	458
Total	¥ 118	¥ 86	\$ 1,148	\$ 837

(2) As Lessor

The Group leases machinery, equipment and other assets.

Total rental revenues for the years ended March 31, 2014 and 2013, were ¥138 million (\$1,347 thousand) and ¥167 million, respectively.

The net investments in leases are summarized as follows:

	Millions of yen		Thousands of U.S. Dollars	
	2014	2013	2014	2013
Gross lease receivables	¥ 94	¥ 161	\$ 918	\$ 1,161
Unguaranteed residual values	1	2	15	15
Unearned interest income	(9)	(18)	(95)	(131)
Investments in leases, current	¥ 86	¥ 145	\$ 838	\$ 1,045

Maturities of investment finance leases that were deemed not to transfer ownership of the leased property to the lessee are as follows:

year ending March 31	Millions of yen	Thousands of U.S. Dollars
2015	¥ 56	\$ 553
2016	37	364
Total	¥ 94	\$ 918

The minimum rental commitments under noncancelable operating leases at March 31, 2014, were as follows:

	Millions of yen		Thousands of U.S. Dollars	
	2014	2014	2014	2014
Due within one year	¥ 46	\$ 453		
Due after one year	33	324		
Total	¥ 80	\$ 777		

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.

Maturities of bank loans are less than four years after the balance sheet date. Although a part of such bank loans is exposed to market risks from changes in variable interest

rates, those risks are mitigated by using derivatives of interest rate swaps.

Derivatives mainly include forward foreign currency contracts and interest rate swaps, which are used to manage exposure to market risks from changes in foreign currency exchange rates of receivables and payables, and from changes in interest rates of bank loans. Please see Note 15 for more detail about derivatives.

(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, 2014.

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, 2014.

(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		
At March 31, 2014	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	¥ 13,585	¥ 13,585	
Time deposits	72	72	
Receivables	37,529	37,527	¥ (2)
Marketable and investment securities			
Held-to-maturity	9	9	0
Equity securities	4,544	4,544	
Total	¥ 55,741	¥ 55,738	¥ (2)
Payables	¥ 27,452	¥ 27,451	¥ 0
Short-term bank loans	8,041	8,041	
Long-term debt	650	645	4
Total	¥ 36,143	¥ 36,138	¥ 5

	Millions of yen		
At March 31, 2013	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	¥ 12,894	¥ 12,894	
Time deposits	80	80	
Receivables	40,034	40,033	¥ (0)
Marketable and investment securities			
Held-to-maturity	14	14	0
Equity securities	4,197	4,197	
Total	¥ 57,220	¥ 57,219	¥ (0)
Payables	¥ 32,255	¥ 32,254	¥ 1
Short-term bank loans	6,939	6,939	
Long-term debt	410	407	2
Total	¥ 39,605	¥ 39,601	¥ 3

	Thousands of U.S. Dollars		
At March 31, 2014	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	\$ 131,997	\$ 131,997	
Time deposits	704	704	
Receivables	364,649	364,626	\$(22)
Marketable and investment securities			
Held-to-maturity	91	92	0
Equity securities	44,153	44,153	
Total	\$ 541,595	\$ 541,573	\$(22)
Payables	\$ 266,733	\$ 266,726	\$ 6
Short-term bank loans	78,132	78,132	
Long-term debt	6,315	6,268	47
Total	\$ 351,181	\$ 351,127	\$ 53

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

Derivatives

The information of the fair value 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
	2014	2013	2014
Investments in equity instruments that do not have a quoted market price in an active market	¥2,094	¥1,946	\$20,349

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

At March 31, 2014	Millions of yen		
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years
Cash and cash equivalents	¥ 13,585		
Time deposits	72		
Receivables	37,443	¥86	
Marketable and investment securities			
Government bonds			¥ 10
Total	¥ 51,100	¥86	¥ 10

At March 31, 2014	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	\$131,997		
Time deposits	704		
Receivables	363,810	\$ 839	
Marketable and investment securities			
Government bonds			\$ 97
Total	\$496,511	\$ 839	\$ 97

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

Derivative Transactions to Which Hedge Accounting Is Applied

At March 31, 2014	Hedged Item	Millions of yen		
		Contract Amount	Contract Amount Due after One Year	Fair Value
Forecasted transactions				
Foreign currency forward contracts:				
Selling				
U.S.\$	Receivables	¥ 2,284	¥ 68	¥ (55)
EURO	-	135	-	(8)
JP¥	-	7	-	0
MXN	-	6	-	(0)
THB	-	3	-	(0)
STG	-	0	-	(0)
Buying				
U.S.\$	Payables	820	15	15
EURO	-	729	5	12
DKK	-	259	-	13
JP¥	-	88	-	(1)
CAD	-	6	-	0
THB	-	4	-	0
STG	-	0	-	(0)
Assigned transactions				
Foreign currency forward contracts:				
Selling				
U.S.\$	Receivables	¥ 1,768		Note 2
EURO	-	33		Note 2
STG	-	13		Note 2
MXN	-	8		Note 2
S\$	-	3		Note 2
Buying				
U.S.\$	Payables	585		Note 2
STG	-	14		Note 2
CAD	-	6		Note 2
EURO	-	3		Note 2

At March 31, 2014	Hedged Item	Thousands of U.S. Dollars		
		Contract Amount	Contract Amount Due after One Year	Fair Value
Forecasted transactions				
Foreign currency forward contracts:				
Selling				
U.S.\$	Receivables	\$22,194	\$ 661	\$ (536)
EURO	-	1,313	-	(87)
JP¥	-	72	-	0
MXN	-	66	-	(3)
THB	-	36	-	(0)
STG	-	6	-	(0)
Buying				
U.S.\$	Payables	7,974	155	153
EURO	-	7,087	58	126
DKK	-	2,522	-	126
JP¥	-	859	-	(12)
CAD	-	59	-	0
THB	-	38	-	0
STG	-	5	-	(0)
Assigned transactions				
Foreign currency forward contracts:				
Selling				
U.S.\$	Receivables	\$17,184		
EURO	-	329		
STG	-	131		
MXN	-	82		
S\$	-	36		
Buying				
U.S.\$	Payables	5,688		
STG	-	138		
CAD	-	59		
EURO	-	33		

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).

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. The Group also enters into interest rate swap contracts to manage its interest rate exposures on certain liabilities.

All derivative transactions are entered into hedge interest and 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.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

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, 2014	Millions of yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts:				
Selling				
U.S.\$	¥ 714		¥ (11)	¥ (11)
S\$	41	¥3	(2)	(2)
JP¥	3		0	0
Buying				
JP¥	1,867		(53)	(53)
U.S.\$	76		(2)	(2)
S\$	18		0	0
EURO	3		0	0

At March 31, 2013	Millions of yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts:				
Selling				
U.S.\$	¥ 910		¥ (16)	¥ (16)
S\$	282	¥8	(40)	(40)
HK\$	12		(2)	(2)
JP¥	12		1	1
Buying				
JP¥	3,943		(249)	(249)
S\$	21		2	2
U.S.\$	15		(0)	(0)

At March 31, 2014	Thousands of U.S. Dollars			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts:				
Selling				
U.S.\$	\$ 6,943		\$ (111)	\$ (111)
S\$	401	\$ 31	(22)	(22)
JP¥	31		0	0
Buying				
JP¥	18,148		(515)	(515)
U.S.\$	744		(24)	(24)
S\$	178		0	0
EURO	33		0	0

At March 31, 2013	Hedged Item	Millions of yen		
		Contract Amount	Contract Amount Due after One Year	Fair Value
Forecasted transactions				
Foreign currency forward contracts:				
Selling				
U.S.\$	Receivables	¥ 1,555	¥ 422	¥ (102)
EURO	-	38	-	(1)
JP¥	-	15	-	(0)
THB	-	1	-	(0)
Buying				
U.S.\$	Payables	2,500	46	94
EURO	-	329	-	13
DKK	-	281	-	28
Assigned transactions				
Foreign currency forward contracts:				
Selling				
U.S.\$	Receivables	¥ 1,067		Note 2
EURO	-	8		Note 2
THB	-	6		Note 2
JP¥	-	5		Note 2
Buying				
U.S.\$	Payables	228		Note 2
EURO	-	38		Note 2
A\$	-	26		Note 2
JP¥	-	19		Note 2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. CONTINGENT LIABILITIES

At March 31, 2014, the Group had the following contingent liabilities:

	Millions of yen	Thousands of U.S. Dollars
Guarantees and similar items of bank loans	¥43	\$ 421

17. COMPREHENSIVE INCOME

The components of other comprehensive income for the year ended March 31, 2014 and 2013, were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2014	2013	2014
Unrealized gain on available-for-sale securities:			
Gains arising during the year	¥ 405	¥ 722	\$ 3,935
Reclassification adjustments to profit or loss	41		398
Amount before income tax effect	446	722	4,334
Income tax effect	(161)	(222)	(1,566)
Total	¥ 284	¥ 500	\$ 2,768
Deferred gain (loss) on derivatives under hedge accounting:			
Gains arising during the year	¥ (56)	¥ 31	\$ (548)
Reclassification adjustments to profit or loss			
Amount before income tax effect	(56)	31	(548)
Income tax effect	20	(10)	198
Total	¥ (36)	¥ 20	\$ (349)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 660	¥ 632	\$ 6,421
Total	¥ 660	¥ 632	\$ 6,421
Share of other comprehensive income in associates:			
Gains arising during the year	¥ 55	¥ 18	\$ 542
Reclassification adjustments to profit or loss		0	
Total	¥ 55	¥ 18	\$ 542
Total other comprehensive income	¥ 965	¥ 1,172	\$ 9,382

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, 2014 and 2013, is as follows:

	Millions of yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income	Weighted-Average Shares	EPS	
Year ended March 31, 2014				
Basic EPS				
Net income available to common shareholders	¥2,459	52,950	¥46.45	\$ 0.45
Effect of dilutive securities				
Warrants		410		
Diluted EPS				
Net income for computation	¥2,459	53,361	¥46.10	\$ 0.45
Year ended March 31, 2013				
Basic EPS				
Net income available to common shareholders	¥3,051	52,637	¥57.97	\$ 0.62
Effect of dilutive securities				
Warrants		337		
Diluted EPS				
Net income for computation	¥3,051	52,974	¥57.60	\$ 0.61

19. SUBSEQUENT EVENTS

a) Risk of uncollectable debts

The Group has received a notification from our customer Fuji Steel Corp's attorney that the company has suspended business due to insolvency on June 3, 2014, and is preparing to file a petition for commencement of bankruptcy proceedings against Kobe local court.

As of June 3, 2014, the Group holds a receivable in the amount of ¥426 million (\$4,143 thousand) to Fuji Steel Corp. The Group expects to record an allowance for doubtful accounts during the 1st quarter of fiscal year ending March 2015, for the estimated uncollectable receivable amount.

b) Appropriations of retained earnings

The following appropriations of retained earnings at March 31, 2014, were approved at the shareholders' meeting of the Company held on June 24, 2014:

	Millions of yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥8.00 (\$0.08) per share	¥424	\$4,119

20. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information, Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity 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. Therefore, the

Group's reportable segments consist of the Plant & Energy Business, Electronics Business, Industrial Machinery Business and Overseas Company.

- Plant & Energy Business: Energy development production, gas oil refining, chemical, engineering, construction, paper & pulp-related machinery and equipment
- Electronics Business: Electron, information and communication, electric, precise, optics, sound, musical instrument-related machinery and equipment
- Industrial Machinery Business: Plastics, rubber, automobile, steel, pharmaceutical, food-related machinery and equipment
- Overseas Company: Machinery and equipment which overseas branches and overseas subsidiaries handle

(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								
	2014								
	Reportable segment				Subtotal	Other	Total	Reconciliations	Consolidated
Plant & Energy Business	Electronics Business	Industrial Machinery Business	Overseas Company						
Sales									
Sales to external customers	¥28,343	¥30,340	¥36,514	¥24,497	¥119,696	¥2,406	¥122,102		¥122,102
Intersegment sales or transfers	1,330	3,360	2,265	7,540	14,496	2,652	17,148	¥(17,148)	
Total	29,673	33,701	38,780	32,037	134,192	5,058	139,251	(17,148)	122,102
Segment profit	1,299	1,634	2,837	1,069	6,840	305	7,146	(3,071)	4,074
Segment assets	18,135	14,994	21,645	15,076	69,852	3,286	73,138	8,304	81,443
Other:									
Depreciation	46	62	54	72	234	101	336	16	352
Impairment loss								29	29
Investment in an equity method company			506	324	830		830		830
Increase in property, plant and equipment and intangible assets	310	562	27	80	980	20	1,001	50	1,052

Millions of yen									
2013									
Reportable segment									
	Plant & Energy Business	Electronics Business	Industrial Machinery Business	Overseas Company	Subtotal	Other	Total	Reconciliations	Consolidated
Sales									
Sales to external customers	¥34,308	¥30,250	¥34,690	¥25,666	¥124,915	¥3,314	¥128,229		¥128,229
Intersegment sales or transfers	904	3,691	2,353	7,176	14,125	2,397	16,523	¥(16,523)	
Total	35,213	33,941	37,043	32,842	139,041	5,712	144,753	(16,523)	128,229
Segment profit	1,520	1,697	2,297	1,089	6,604	555	7,160	(2,569)	4,590
Segment assets	20,974	16,682	18,717	13,409	69,783	3,555	73,339	8,139	81,478
Other:									
Depreciation	25	31	69	56	183	115	298	17	316
Investment in an equity method company			433	240	674		674		674
Increase in property, plant and equipment and intangible assets	516	287	109	105	1,019	21	1,041	24	1,065

Thousands of U.S. Dollars									
2014									
Reportable segment									
	Plant & Energy Business	Electronics Business	Industrial Machinery Business	Overseas Company	Subtotal	Other	Total	Reconciliations	Consolidated
Sales									
Sales to external customers	\$275,393	\$294,800	\$354,788	\$238,024	\$1,163,007	\$23,379	\$1,186,386		\$1,186,386
Intersegment sales or transfers	12,922	32,650	22,012	73,262	140,847	25,773	166,620	\$(166,620)	
Total	288,316	327,450	376,800	311,286	1,303,854	49,152	1,353,006	(166,620)	1,186,386
Segment profit	12,624	15,879	27,567	10,393	66,464	2,968	69,432	(29,841)	39,591
Segment assets	176,211	145,694	210,317	146,485	678,708	31,929	710,638	80,687	791,325
Other:									
Depreciation	449	605	525	700	2,281	984	3,266	160	3,426
Impairment loss								289	289
Investment in an equity method company			4,917	3,151	8,068		8,068		8,068
Increase in property, plant and equipment and intangible assets	3,020	5,463	265	781	9,530	197	9,727	494	10,222

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.

1. Information about products and services

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

2. Information about geographical areas

(1) Sales

Millions of Yen						
2014						
Japan	China	Asia	North America	Europe	Other	Total
¥60,715	¥16,803	¥30,361	¥7,257	¥1,527	¥5,437	¥122,102

Millions of Yen						
2013						
Japan	China	Asia	North America	Europe	Other	Total
¥60,787	¥18,780	¥40,059	¥5,197	¥2,289	¥1,114	¥128,229

Thousands of U.S. Dollars						
2014						
Japan	China	Asia	North America	Europe	Other	Total
\$589,926	\$163,270	\$294,996	\$70,517	\$14,840	\$52,834	\$1,186,386

Notes: Sales are classified in countries or regions based on the location of customers.

(2) Property, plant and equipment

Millions of Yen			
2014			
Japan	Asia	Other	Total
¥2,958	¥155	¥41	¥3,155

Millions of Yen			
2013			
Japan	Asia	Other	Total
¥2,373	¥139	¥31	¥2,544

Thousands of U.S. Dollars			
2014			
Japan	Asia	Other	Total
\$28,741	\$1,513	\$405	\$30,659

3. 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. (the "Company") and its consolidated subsidiaries as of March 31, 2014, 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, 2014, 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.

Emphasis of Matter

As discussed in Note 19 to the consolidated financial statements, the Company has received a notification from a customer's attorney that the customer is preparing to file a petition for commencement of bankruptcy proceedings on June 3, 2014. Our opinion is not qualified in respect of this matter.

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 24, 2014

Member of
Deloitte Touche Tohmatsu Limited

CORPORATE DATA / INVESTOR INFORMATION

(As of March 31, 2014)

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

410 (Non-consolidated)
1,069 (Consolidated)

Transfer Agent and Registrar

Tokyo Securities Transfer Agent Co., Ltd.

Major Shareholders

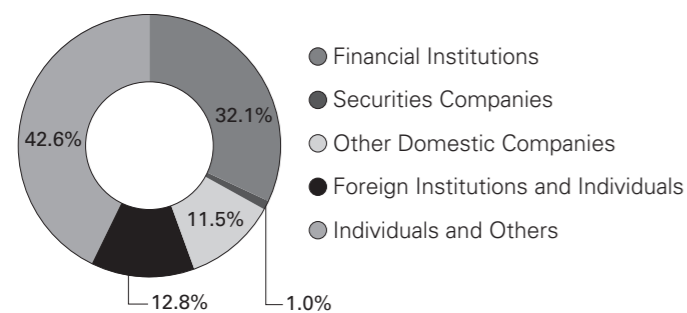
	(% of total)
Mizuho Bank, Ltd.	4.82
Sumitomo Mitsui Banking Corporation	4.82
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	3.52
Resona Bank, Limited.	3.19
Nipponkoa Insurance Co., Ltd.	2.87
Mitsubishi Heavy Industries, Ltd.	2.74
Japan Trustee Services Bank, Ltd. (Trust Account)	2.72

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

Common Stock

Authorized:	160,000,000 shares
Issued:	55,432,000 shares
Number of shareholders:	7,693

Distribution of Ownership among Shareholders



Directors and Audit & Supervisory Board Members (As of June 24, 2014)

President & CEO
Koji Yamagata*

Senior Managing Director & CFO
Tohru Tsuda*

Managing Directors
Yoshihide Yamanaka
Michiaki Sugiura
Junzo Takai
Shigeki Terakawa

Standing Audit & Supervisory Board Member
Masakazu Fujinaga

Audit & Supervisory Board Member
Isao Takesue

Outside Audit & Supervisory Board Members
Tsuyoshi Terui
Toshihiko Matsumiya

Executive Officers (As of June 24, 2014)

Managing Executive Officers
Takanori Ogura
DAIICHI MECHA-TECH CORPORATION

Toru Takata
Plant & Energy Business Div.

Hiroshi Yoshida
SHANGHAI YISHI TRADING CO., LTD.

Mitsuru Yoshida
DAIICHI JITSUGYO VISWILL CO., LTD.

Hajime Kimoto
Corporate Planning & Strategy Div.

Akira Kasamatsu
DAIICHI JITSUGYO ASIA PTE. LTD.

Executive Officers

Muneo Yamano
Plant & Energy Business Div.

Hitoshi Takasaki
DAIICHI JITSUGYO ASIA PTE. LTD.

Ryuichi Ninomiya
Nagoya Business Div.

Itaru Kage
Administration & Accounting Div.

Ichiro Uno
DAIICHI JITSUGYO (AMERICA), INC.

Masatoshi Ueno
Electronic Systems Business Div.

Daisuke Ozono
Aviation & Industrial Machinery Business Div.

* Representative Director

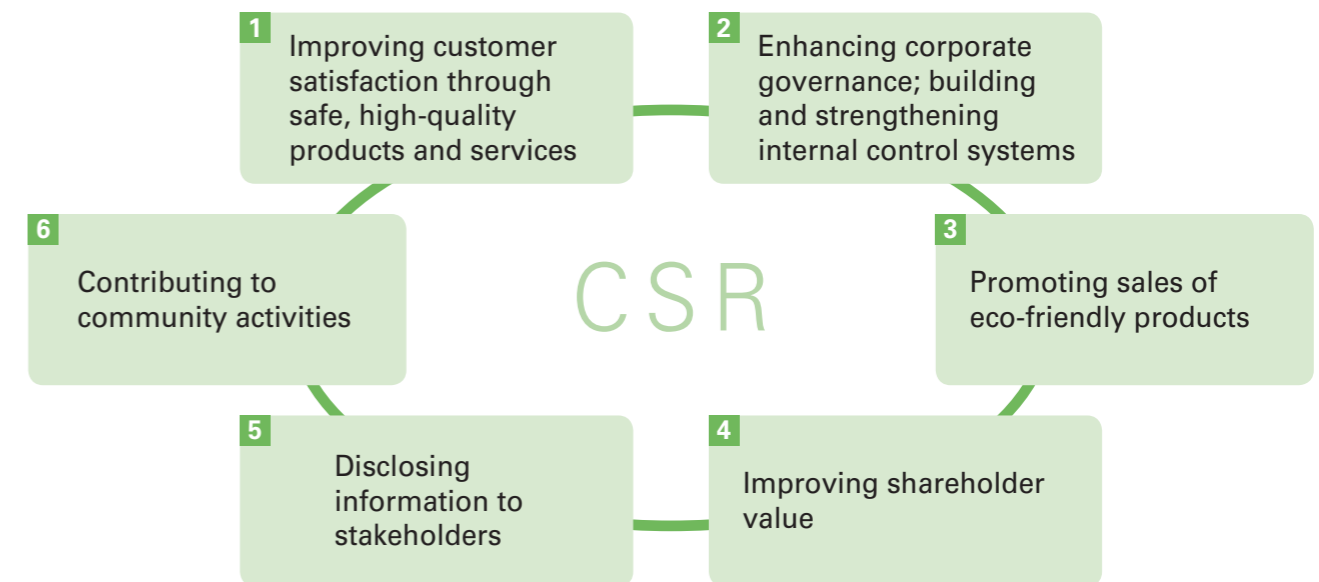
CORPORATE SOCIAL RESPONSIBILITY

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, through 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



Example of human resources development: Diversity management

The DJK Group has more than 1,000 employees, and a wealth of human resources supports our business activities. DJK regularly offers training opportunities to local staff overseas to aggressively promote superior human resources regardless of gender, nationality, or social background. We are confident that a sense of group-wide unity and commitment to a corporate organization can be solidified by helping every local staffer understand his or her interests in DJK's corporate culture and the direction of its activities. For the DJK Group, which aims for further global development, the development of talented human resources represents an important issue and management intends to continuously address this essential task.



Example of social contribution program: Co-sponsoring robot contests

As a general machinery trading company, DJK co-sponsors robot contests to help children understand Monozukuri technology. The contests offer occasions to become familiar with scientific technologies and serve as a venue for cultivating creativity and problem-solving abilities. Many DJK employees participate in the competition as volunteer staff to support such future-oriented children.





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