

ANNUAL REPORT  
2014

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**Financial Highlights**

Osaki Electric Co., Ltd. and Consolidated Subsidiaries

Years ended March 31

	Millions of yen					Thousands of U.S.dollars
	2010	2011	2012	2013	2014	2014
<b>For the year:</b>						
Net sales	¥ 46,774	¥ 45,975	¥ 47,362	¥ 61,205	¥ 65,663	\$ 638,009
Operating income	3,011	3,825	3,329	2,278	1,766	17,165
Net income	1,101	1,020	1,339	1,472	783	7,610
<b>At year-end:</b>						
Total assets	61,665	63,051	79,352	82,656	87,918	854,245
Total equity	38,578	39,301	36,204	39,830	42,760	415,470
Number of employees	1,817	1,821	3,369	3,504	3,534	

	Yen					U.S.dollars
	2010	2011	2012	2013	2014	2014
<b>Per share of common stock:</b>						
Net income	¥ 29.40	¥ 27.26	¥ 36.95	¥ 41.30	¥ 21.96	\$ 0.21
Cash dividends	12.00	12.00	12.00	12.00	12.00	0.11
Equity	656.33	668.97	688.13	793.80	880.54	8.55

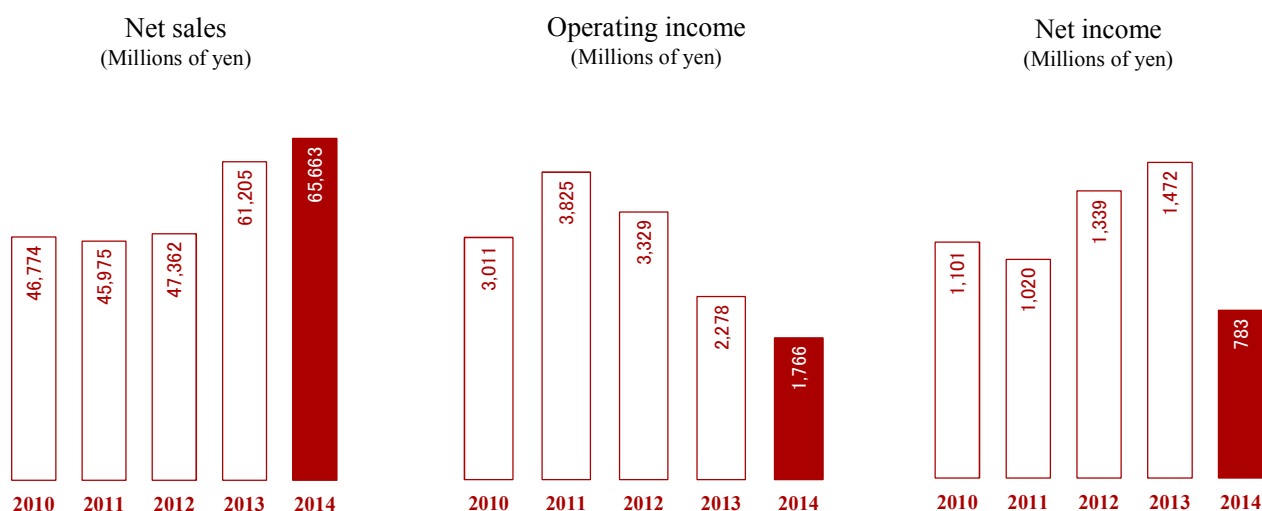
Notes : U.S.dollar amounts have been translated from yen, for convenience only, at the rate of ¥102.92=U.S.\$1  
the approximate Tokyo foreign exchange market rate as of March 31, 2014

**Business segments -****Measurement and control equipments:**

Watt-hour meters, Current limiter, Instrument VCT, Distribution panels & Supervisory control boards, Time switches, Optical communication device, Meter reading systems.

**FPD Assembly equipments:**

Sensor related equipments, Energy related equipments, FPD related equipments.

**Real estate:** Estate for rent.

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## Osaki Philosophy

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Osaki group's guidelines for corporate actions with incessant personal development and a broader view, be responsible for better society, better global environment while creating outstanding customer value.

### **O** PEN MIND

*Creating products that please our customers comes first.*

Regardless of the market or the times, without any preconceptions, we respond to our customer's needs with flexibility, and also look ahead to actively answer to unseen needs.

### **S** OCIETY

*In harmony with society, we aim to grow with society.*

With our accumulated expertise as the foundation, we work to answer the dreams of society with our new technology. As a member of society, we work in harmony with society, contribute to society, and aim to become a company that society cannot do without.

### **A** CTIVITY

*Making use of each person's abilities to the full, we bring out people's dreams and create a high quality life.*

Each person's characters and abilities combined create a whole new value that moves the company towards growth. Coming forward with original ideas, suggestions and challenging. We believe that this is what makes it worth living and working, and furthermore, what brings out each person's dreams and a more relaxed atmosphere.

### **K** NOWLEDGE

*With a wide interest in what goes on around us, we actively challenge ourselves to new things.*

In this rapidly changing world, we absorb information from a global viewpoint and respond with sensibility. We believe that actively challenging ourselves to new things will vitalize our company and liven up our society.

### **I** NTEGRATION

*Looking at things from the viewpoint of the entire company, we aim to develop a cooperative organization.*

We constantly view ourselves and our roles in the company through the eyes of the entire company, and take action accordingly. By cooperating with each other, the information and values that each of us hold join together, creating something new of even greater value, along with a lively company atmosphere.

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## A message from the Chairman and President

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### TO OUR SHAREHOLDERS

Osaki Electric Group has been making efforts for the efficient use of electric power by providing technologies, systems, and products for measurement, control and communication. Our philosophy is to utilize limited resources to create a comfortable environment for social living. Our close partnership with electric power companies has enabled us to contribute to the Japanese electric power industries and more specifically the construction of most reliable and accurate distribution systems.

Our society is constantly undergoing changes. Deregulation is promoted in various fields and new technologies are being released while in the field of communication we are experiencing revolutionary advancements. In order to cope with such changes, we will continue to reform and strengthen our business structure and maximize shareholder's value. In addition to our regular product groups, we are also placing emphasis on the development of the optical communication business and the in-line production system of the flat-panel displays. In the electronics industry, we hope to establish technologies that would give another breakthrough in the industry. Technological innovation holds unlimited possibilities. To enjoy a comfortable society, Osaki Electric Group will continue to strive forth to the goal with our spirit and creativity.

We sincerely appreciate and request your continued patronage.

Y. Watanabe  
Chairman and CEO  
Osaki Electric Co., Ltd.

Y. Matsui  
President and COO  
Osaki Electric Co., Ltd.

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## Management Policy

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### 1. Basic Corporate Policy

The Osaki Electric Group has set forth its corporate policy statement as follows: “We will contribute to society principally in the energy solutions domain by continually bringing forth newly created value and actively challenging ourselves to harness new technologies.” The company is aiming to become a company trusted by society while devising to maximize enterprise value.

The Measurement and Control Equipment Business is contributing to energy-saving deployments and global-warming abatement through the development of smart meters, as well as a broad portfolio of equipment and systems for efficient usage of energy. These products address the customer service enhancements and the rationalization measures of electric power companies categorically described as the smart grid, and support automated meter-reading systems, complex electricity tariff menus, load balancing that includes peak usage shifting, and effective adoption of renewable energy.

With an aim to become a leading company in the mounting apparatus industry, the FPD (Flat Panel Display) Assembly Equipment Business is eyeing continual, stable growth for FPD manufacture and mounting systems that have successfully propelled the business thus far as core products, and pro-active new business development for the semiconductor-related manufacture equipment market through fine-pitched mounting that represents a promising growth area.

### 2. Measurable Target for Management

The corporate group emphasizes management that pursues the efficiency of shareholder equity. We are placing efforts to attain an equity-to-net income ratio (ROE, return on equity) of 10% or higher as the measurable target for mid-term and long-term corporate management.

### 3. Mid-Term and Long-Term Corporate Strategies

The Mid-Term Corporate Operations Plan sets forth fundamental directions to enhance the enterprise value of the group through the following initiatives.

- (1) The electronic electricity meter is migrating from a conventional metering instrument to the next-generation smart meter. Aggressive allocation of resources will build a firm business foundation to face the anticipated explosion in demand and concomitant intensifying competition. Efforts to secure a staunch position as a top manufacturer in Japan are going hand in hand with the creation of comprehensive energy measurement and control systems that will also address global markets.
- (2) For the general commercial market, we offer services comprising energy consumption diagnostics and consulting for improved plant equipment operation, equipment updates, and energy procurement. Revenue growth is eyed through expanded energy-saving service offers, including BEMS (Building Energy Management System) for commercial complexes and smaller buildings, and HEMS (Home Energy Management System) for residential use. Active development and sales of new value-added products will also be pursued for optical equipment beyond the existing customer base and portfolio in an effort to unearth new customers.

- (3) The FPD Assembly Equipment Business anticipates sustained growth, as a consequence of increased demand in digital home electronics devices like smartphones and other handheld multi-function terminals. Sensor device- and high-functional device-related equipment, and energy- and lighting-related equipment remain a strategic product range being nurtured currently, with efforts to reinforce competitiveness by driving technology development ahead and further, and denying closure of competitive gaps.

#### 4. Fundamental Policy Regarding Distribution of Profits

Osaki Electric places the return of profit to shareholders as one of its core management policies. The company considers the continual distribution of a steady dividend to shareholders as the premise, with additional performance-based dividends as basic policy. Retained earnings are applied to R&D investments and capital expenditures towards the long-term increase of enterprise value, and will be leveraged effectively for future business efforts that improve performance.

The articles of incorporation allow for an interim dividend. Consequently, basic policy establishes semi-annual dividends from surplus as an interim dividend and year-end dividend. The board of directors authorizes the interim dividend, and the general shareholders meeting authorizes the year-end dividend.

For the operating year of this report, the dividend based on the above policy is set at 12 yen (of which 6 yen is the interim dividend).

Note: Dividends of surplus with record dates during the operating year of this report are as follows.

Date of Resolution	Total Dividend (Million Yen)	Dividend per Share (Yen)
Board of directors resolution of Nov. 5, 2013	214	6.00
Annual general shareholders meeting resolution of June 27, 2014	213	6.00

## Present status of Business

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## Present status of Business

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### 1. Business Performance

#### (1) Overview of Consolidated Fiscal year

The economy of Japan during the consolidated fiscal year under report experienced a mild recovery through improved corporate profits, increased personal consumption, and revived capital expenditures. Although a downtrend in the economic climate outside Japan remains a concern as a risk factor, underlying support from the effects of various policies has increased investment, and a recovering trend to the economic climate is expected to continue.

Amidst the issue of nuclear power plant shutdowns burdening our main business customers who are the domestic electric power companies, the management environment of the Osaki Electric Group remains in a complicated state with respect to the Measurement and Control Equipment Business. As the power companies strongly advance cost cutting, competition among suppliers is heating up and tough conditions continue. Nonetheless, the market for electricity meters outside Japan is trending relatively firmly. The FPD Assembly Equipment Business continues to find principal clientele in the digital home electronics industry and LED lighting industry with excess facilities that have led to conditions of holding back on new capital expenditures.

Under the management environment described, the corporate group forged ahead to expand sales and make operations more efficient through sales promotion activities and cost-cutting activities in an all-out effort to improve performance results.

Owing to successful international business operations, consolidated net sales increased by 7.3% over the prior year to 65,663 million yen. Thus, although the Measurement and Control Equipment Business experienced solid growth for its international business operations, the decrease in demand and decline in selling prices for products destined to domestic electric power companies led operating income to drop by 22.5% to 1,766 million yen, and the decrease in dividend income and increase in foreign exchange loss were factors in causing ordinary income to drop by 34.3% to 1,905 million yen over the prior year. Net income suffered a drop of 46.8% over the prior year to record 783 million yen as a consequence of the extraordinary loss in the liquidation of a subsidiary.

#### (2) Business Segments

##### (A) Measurement and Control Equipment Business

This segment experienced success in international business operations through the sales of electricity meters in the Oceania Region and switchgear panels in Southeast Asia. Although products destined to domestic electric power companies recovered towards the end of the reported period, the decrease in demand and decline in sales prices overall have yielded lackluster performance. Sales of energy-saving products tracked successfully. Net sales for the segment rose by 7.6% over the prior year to 64,027 million yen, but operating income decreased by 19.7% to 2,103 million yen.

##### (B) FPD Assembly Equipment Business

This segment experienced growth in net sales for energy- and lighting-related equipment and FPD assembly equipment, but net sales of sensor device- and high-functional device-related equipment decreased. As a result, net sales declined by 14.7% from the prior year to 1,301 million yen. Operating losses increased by 42 million yen over the prior year to 525 million yen.

**(C) Real estate business**

Net sales for this segment increased by 2.1% over the prior year to 473 million yen, and operating income increased by 9.0% to 181 million yen.

Segment net sales reflect internal inter-segment sales or transfers amounting to 138 million yen.

**(3) Outlook for Ensuing Fiscal Year**

The Measurement and Control Equipment Business sees the rollout plans of smart meters by electric power companies being brought forward, and heavy demand may emerge within the next few years. But actions taken by the electric power companies remain unclear to some extent, and our immediate profitability remains difficult to foresee. Energy-saving products continue to enjoy growth in demand, while OUI (OSAKI United International, Pte. Ltd.) is driving the global business whose performance is expanding. OUI's contribution share to group performance is likely to increase.

Despite the tough environment, the Measurement and Control Equipment Business intends to further reinforce sales activities toward expansion of net sales, mainly from smart meters where growth in demand is expected. Initiatives include the introduction of new models and continued driving down of manufacture costs. Efforts will go toward overseas initiatives centered on OUI, and synergies will be pursued. Active order-taking activities will move ahead for existing clientele within and outside Japan for the FPD Assembly Equipment Business, as well as new customers.

The outlook for the full year ahead projects 76,000 million yen in net sales, 2,600 million yen in operating income, 2,600 million yen in ordinary income, and 1,300 million yen in net income.

**Consolidated Business Performance Outlook**

Net sales	:	76,000 million yen (15.7% increase over prior year)
Operating income	:	2,600 million yen (47.2% increase over prior year)
Ordinary income	:	2,600 million yen (36.4% increase over prior year)
Net income	:	1,300 million yen (66.0% increase over prior year)

*Note: The performance outlook above is a future estimate based on calculations made from information obtained for the Osaki Electric Group as of this writing and includes elements of uncertainty. Actual performance results may vary from this outlook.*

## 2. Analysis of Financial Condition

Total assets for the year ended increased over the prior year's end by 5,262 million yen to 87,918 million yen. The net increase resulted from a decreases in cash and cash equivalents by 369 million yen, offset by increases in Notes and accounts receivable, trade by 3,316 million yen, in Inventories by 2,111 million yen, and in Investments in securities by 348 million yen.

With respect to liabilities, long- and short-term debt decreased by 3,217 million yen; however, Notes and accounts payable, trade increased by 1,046 million yen and Bonds increased by 5,000 million yen. Consequently, total liabilities for the year ended increased by 2,333 million yen from the prior year's end to 45,158 million yen.

Total equity benefited from increases in retained earnings by 355 million yen, in unrealized gains on securities by 371 million yen, and in foreign currency translation adjustments by 2,262 million yen, and thus increased by 2,929 million yen over the prior year's end to 42,760 million yen.

The equity ratio rose 1.5 points over the prior year's end to 35.7 %.

	Total assets (million yen)	Total liabilities (million yen)	Total equity (million yen)	Equity ratio
Year ended March 2014	87,918	45,158	42,760	35.7%
Year ended March 2013	82,656	42,825	39,830	34.2%
Difference	5,262	2,333	2,929	1.5 points

### 3. Cash Flows

Balances of cash and cash equivalents for the consolidated fiscal year under report totaled 11,876 million yen with a decrease of 1,170 million yen over the prior year's end.

	Year Ended March 2013 (million yen)	Year Ended March 2014 (million yen)	Difference (million yen)
Cash flows from operating activities	6,741	1,052	(5,688)
Cash flows from investing activities	(5,828)	(2,524)	3,303
Cash flows from financing activities	(1,102)	(185)	916
Cash and cash equivalents at end of year	13,046	11,876	(1,170)

#### (1) Cash flows from operating activities

Cash flows from operating activities experienced negative factors associated with the increase in notes and accounts receivable of 2,155 million yen and the increase in inventories of 1,456 million yen, offset by the positive factors of 1,409 million yen from income before income taxes and minority interests, 2,378 million yen from depreciation and amortization, and 592 million yen from an increase in notes and accounts payable, for net cash acquired of 1,052 million yen.

#### (2) Cash flows from investing activities

Cash flows from investing activities resulted in 2,524 million yen of cash used mainly through payments of 3,052 million yen for acquisitions of property, plant and equipment

#### (3) Cash flows from financing activities

With respect to cash flows from financing activities, principal items for cash used included a net reduction in long- and short-term debt of 3,811 million yen and cash dividends paid of 600 million yen including minority shareholders, offset by proceeds of 5,000 million yen from the issuance of bonds and 700 million yen from an increase in collateral money payable for loan transactions, for net cash used of 185 million yen.

## 4. Responses to Business Challenges

### (A) Measurement and Control Equipment Business

Worsening business performance of the electric power companies, our principal trade customers for the power company product portfolio, and the introduction of general competitive bidding have resulted in intensified competition among supplying manufacturers, while the decline in product selling prices has led to a continuing, tough business environment.

The electricity meter is a core product of our portfolio, and the full-fledged introduction of the smart meter, the next-generation electricity meter, is about to launch. The smart meter transition is expected to ramp up, and a period of full penetration is foreseen within the next few years. Amidst this backdrop, we are making an all-out effort to develop products that meet the needs of the power companies with high functionality, high quality and high reliability and that remain highly competitive. In an effort to acquire the largest market share of smart meters as achieved previously for conventional meters, we are building a production organization to meet increased demand and cutting costs to match selling prices. In our international business operations, we are readying our supply organization for the order from the U.K. for a smart meter communication hub, preparing our support of smart meters expected to increase in Europe in the near future, and enhancing our competitiveness to secure profitability.

### (B) FPD Assembly Equipment Business

Our principal customer base belongs to the digital home electronics industry for this segment. As manufacturing centers for the industry shift to China and Asian countries, the business environment experiences changes. We are thus being driven to promote order-taking activities based on enhanced competitiveness for our existing product line, to forge new business and issue new products, and to reinforce our production, distribution, and service organizations. Conditions have prompted us to improve added value in terms of product performance and functionality and to reinforce competitiveness through cost reductions. Pro-active business development will proceed in the growth category of energy- and lighting-related equipment and in new fields expected for future growth such as sensor device- and high-functional device-related equipment.

### (C) Real estate business

Improved occupancy rates and cost reductions are planned for this segment to improve the rate of return on investment.

## **5. Risks in Business Operations**

The risk factors that may impose an impact on the management results and financial condition of the Osaki Electric Group include the following.

### **(1) Fluctuation in Demand**

The market for the products manufactured by the corporate group (measurement and control equipment market, FPD manufacture apparatus market) may experience unexpected fluctuations (performance trends of power companies constituting the customer base, intensified competition through changes in tendering format, or other) that will change the demand for our products. Changes in the political or economic climates of countries or regions where products are distributed by the corporate group may alter demand for our products. Decreasing sales from large fluctuations in product demand may impose an adverse effect on the business performance and financial condition of the corporate group.

### **(2) Price Appreciation, Sourcing Difficulty of Material and Parts**

The corporate group purchases materials, parts, and contracted assemblies externally for the manufacture of its product line. We have no guarantee against global economic conditions, the environments in material producing countries, and fluctuations in foreign exchange rates that may lead to the appreciation of prices and sourcing difficulties. Price appreciation and sourcing difficulty for materials and parts may impose an adverse effect on the business performance and financial condition of the corporate group.

### **(3) Stock Price Fluctuation**

The corporate group owns approximately 4.4 billion yen worth of investments in securities. We have no guarantee against any valuation loss of these investments in securities in the event of a large drop in stock prices. A large valuation loss of investments in securities may impose an adverse effect on the business performance and financial condition of the corporate group.

### **(4) Real Estate Price Fluctuation**

The corporate group is engaged in the Measurement and Control Equipment Business, FPD Assembly Equipment Business, and Real Estate Business, and consequently owns real estate in the form of land and buildings. A drop in real estate prices may impose an adverse effect on the business performance and financial condition of the corporate group.

### **(5) Product Failure**

Manufacturing in the corporate group is performed under high quality control standards. We have no guarantee into the future, however, of safeguards for all our products against the occurrence of any recalls with respect to product failures or servicing failures or decrease in sales volume driven by any decline in customer satisfaction. A large-scale recall or product failure resulting in cancelled deliveries may impose an adverse effect on the business performance and financial condition of the corporate group.

**(6) Business Concentration on Select Customers**

Among the customers of the corporate group, the Measurement and Control Equipment Business mainly delivers electricity meters as its core product line, current limiters, measuring instrument converters, monitor control apparatuses, and time switches to electric power companies within and outside Japan. The proportion of net sales to power companies and their affiliated companies account for a high share. The FPD Assembly Equipment Business also relies on select accounts for a high proportion of net sales. Thus, changes in business format of the customers or in the business relationship may impose an adverse effect on the business performance and financial condition of the corporate group.

**(7) Corporate Acquisition**

The corporate group may engage in corporate mergers and acquisitions and in business reorganizations for purposes of business expansion or reinforcing competitiveness. Recently, the stock of OUI, a Singapore corporation, was acquired, and consolidated as a subsidiary. In this type of initiative, timely accomplishment of expected events, such as securing growth opportunities, improving financial condition, and integrating various systems may not be concluded (or achieved). Unforeseen problems may arise, where unplanned expenses and costs accrue. Any of these potential situations may impose an adverse effect on the business performance and financial condition of the corporate group.

**(8) Foreign Exchange Fluctuation**

The corporate group engages in its global business with OUI in Singapore as the hub. Fluctuations in foreign exchange rates may cause net sales, prices of materials and parts, selling and administrative expenses, asset values of subsidiaries in foreign locations, and other factors to fluctuate. A sudden shift in exchange rates may impose an adverse effect on the business performance and financial condition of the corporate group.

**(9) Other Risks**

The production facilities of the corporate group are distributed geographically within and outside Japan. Nonetheless, any natural disaster like an earthquake may cause plant production capacity to drop and may impose an adverse effect on business operations of the corporate group. In addition, warfare, terrorism, change in government, and epidemics beyond the control of management, fluctuations in financial markets, and changes to supply organizations of purchase sources may impose an adverse effect on the business operations and performance of the corporate group.

## 6. Contracts Material to Operating Management

### Business Alliance Agreements

Company within corporate group	Contract Party	Country	Contract Details	Date of contract	Contract term
Osaki Electric Co., Ltd. (Parent)	Nitto Kogyo Corporation	Japan	<ol style="list-style-type: none"> <li>1. Securing competitive advantages for custom-ordered panels, electronic device products, and communication device products with respect to quality, costs and delivery</li> <li>2. Joint-development of new products</li> <li>3. Mutual exchange of professional engineers</li> </ol>	September 22 <sup>nd</sup> , 2009	September 22, 2009 until September 21, 2014
Osaki Electric Systems Co., Ltd. (Consolidated subsidiary)					



## 7. Research and Development

Responding promptly to the needs in this period of significant changes to the business environment, Osaki Electric is streamlining the product development organization for all group companies, including consolidated subsidiaries, activating human resources in flexible fashion, and investing in research and development for purposes of new product development and product improvement.

Research and development (R&D) expenses spent by the corporate group for the consolidated fiscal year under report totaled 2,480 million yen.

R&D activities for each business segment are provided below.

### (A) Measurement and Control Equipment Business

R&D associated with electricity meters has focused on smart meters, which are expected to receive extensive promotion in installation, in response to worldwide changes in energy delivery. R&D for electricity meters is also advancing in response to needs, amidst full-fledged smart meter rollouts shaping up for power companies within Japan. For the smart meter lineup, development of a series to broaden the portfolio and further cost reduction are the main efforts.

Globally, the electricity meter of choice is rapidly shifting to the smart meter. In response to this trend, the corporate group is aggressively pursuing development of technologies associated with smart meters.

As smart meter solutions pervade for electricity metering, R&D has proceeded on various telecommunication technologies contemplated for adoption: optical communications, power line communications, wireless communications, etc. Consequently, systems and product development that exploits these technologies are also underway. Automated meter-reading terminals that apply IP-related technologies for large customers are in the process of delivery to power companies. Further development for products that leverage these technologies continues presently.

Contributing to improved energy supply and demand, our general commercial equipment supports the energy solutions business. Namely, BEMS and HEMS find roles in improving and deploying demand management services for community demand response or the like, while demand control apparatuses for general customers and Electricity Safety Associations nationwide, smart meter systems development for condominiums, and a lineup of in-home energy management units are ramping up.

With respect to our meter-reading equipment and metering systems business, we are engaged in development of a new handheld terminal featuring impact resistance and environmental durability, and a metering system app for smartphones. The efforts of new product and systems development reflect our response to customer needs.

The R&D expenses of this segment totaled 2,449 million yen.

**(B) FPD Assembly Equipment Business**

Development for this segment pertains to manufacturing equipment for mounting FPD modules around core technologies of bonding and mounting, and electronic-device assembly equipment.

In the fields of mounting and assembly to which these products belong, compact, high-integration of goods demands higher definition and precision in bonding and mounting than before. Measurement and control technologies are becoming more and more important in improving product value and product quality. During the consolidated fiscal year under report, we made further improvements to our core technologies of high-definition bonding and mounting, and placed efforts in technology development for measuring and control that are considered core technologies in the growth areas associated with sensor devices.

Component technology development common to various apparatuses is the main vehicle. The general administrative expenses thus entered for the consolidated fiscal year under report totaled 30 million yen. Customized development expenses accruing to individual orders were mainly treated as manufacture costs for the respective orders. R&D expenses are not classed, however, since the portions specific to R&D within manufacture costs are difficult to allocate.

**(C) Real estate business**

Research and development are not conducted for this segment.

## 8. Plant and Facilities

### Overview of Capital Expenditures

The corporate group continually programs capital expenditures for purposes of maintaining and increasing production capacity, and fulfilling and reinforcing R&D functions. Capital expenditures totaled 2,153 million yen for the consolidated fiscal year under report.

The Measurement and Control Equipment Business invested 2,087 million yen mainly in facilities associated with electricity meters, the FPD Assembly Equipment Business invested 52 million yen, and the Real Estate Business invested 13 million yen.

There were no disposals or sales of material facilities.

## 9. Corporate Governance

### (1) Fundamental Approach to Corporate Governance

Osaki Electric views the interests of stakeholders including shareholders with serious emphasis. We recognize comprehensive corporate governance as a very important management issue in a mission to maximize lasting enterprise value. The corporate group will improve management efficiency and transparency further, and aim for fair management practices. We will also make efforts in pro-active, prompt information disclosures, and enhance disclosures such as corporate details through the Internet.

### (2) Overview of Corporate Governance Organization

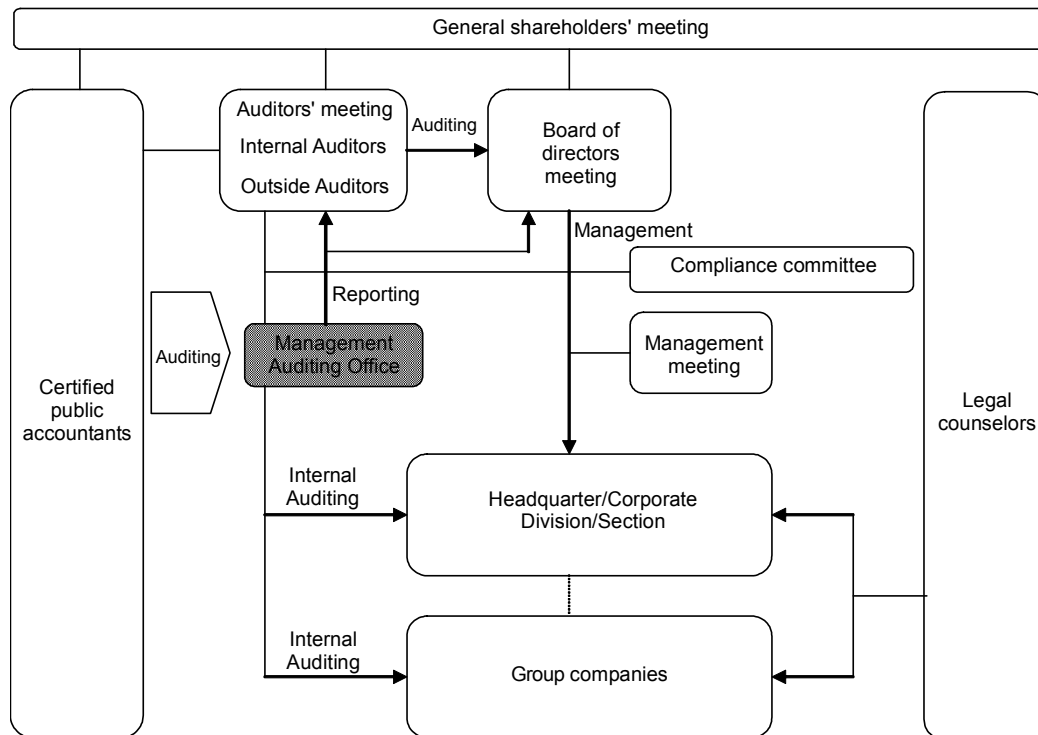
#### ① Corporate Governance Organization

Osaki Electric adopts a statutory auditor system. Although the company does not appoint outside directors, the audit organization constituted by statutory auditors including outside auditors is considered appropriate as a management oversight function. The auditors consist of four members, of which two are outside auditors who maintain objectivity and neutrality of management oversight functions by providing an external checking function. The board of directors consists of fifteen members. Four of these members have employment experience from external companies, and participate in management with their objective outlook.

The board of directors is positioned as an organization that not only decides important matters established by law and basic management policy, but also oversees the execution of business activities. In principle, the board of directors holds monthly meetings and convenes further if necessary. This practice allows the board to respond dynamically to management environment changes and service efficient operations. As the assisting function of the board meeting, management meetings attended by senior directors are held weekly in principle, in order to conduct decision-making for daily business execution and to discuss management issues.

With regard to compliance, the compliance committee is established to oversee compliance to all laws and regulations and social norms, and to set forth the code of practice and compliance manual at Osaki Electric group companies to instill the purposes of compliance. The committee also issues the compliance handbook to promote compliance awareness and maintain compliance organizations. Concerning legal and accounting matters, nevertheless, the committee receives appropriate advice from experts such as legal counsel and certified public accountants to satisfy legal compliance.

The following is a diagram of the corporate governance system



## ② Organization of Internal Controls System

Based on the Companies Law and its enactment rules, we have established fundamental policy for structuring the internal controls system, and maintain the system accordingly to secure proper operational duties as follows:

a) Organization that secures conformance to the law and articles of incorporation with respect to execution of duties by directors and employees

- \* The company establishes the compliance committee, which sets forth the code of practice and compliance manual at Osaki Electric group companies and issues the compliance handbook to promote thorough common knowledge and compliance so that officers and employees observe the law, the articles of incorporation, internal company rules, and social norms.
- \* The head of the helpline system (President and COO) and persons in charge, through appropriate operations, shall institute early detection and correction to violations of the law and unlawful conduct by officers and employees, and make efforts to strengthen the compliance organization.

b) Organization for storing and managing information related to execution of duties by directors

- \* Information and documents related to the execution of duties by directors should be recorded on paper or electromagnetic media and appropriately stored and managed in accordance with board of directors meeting rules and internal corporate rules.
- \* Directors and statutory auditors are entitled to have access to these documents during business hours.

c) Rules and other organizations related to managing risk of loss

- \* Each department as well as each committee (Compliance, Quality Control, Environmental Conservation, Product Liability, Export Administration) shall identify, analyze, and assess risks according to the Risk Management Rules and the Basic Policy for Risk Management, and prepare a Risk Map. Any recognized risk shall have necessary countermeasures instituted to reduce such a risk.
- \* Headed by the President and COO, the Internal Auditing Office is installed to conduct internal audits.
- \* The Internal Auditing Office audits the risk management status for each department through an internal audit. The office reports the results periodically at board meetings, where improvement measures will be deliberated and decided.

d) Organization to secure efficient execution of duties by directors

- \* Companywide goals shared by officers and employees are established at the beginning of each year, and each department prepares a specific annual operating plan to achieve the goals. Furthermore, achievement of the goals is reviewed monthly and quarterly. Feedback of the results secures effectiveness and efficiency of operations.
- \* The board of directors meetings are held monthly in principle, and may convene as necessary to respond efficiently to dynamic changes in the management environment.
- \* In principle, management meetings composed of senior directors are held weekly to conduct multi-faceted studies and discussions over management issues that affect the corporate group. Matters for resolution at a board meeting are tabled for discussion and deliberation at that venue.
- \* Execution of daily duties shall be based in accordance with occupational duty authority rules and internal approval process rules.

e) Organization to secure appropriateness of duties for the corporate group composed of the parent company and its subsidiaries

- \* Based on management rules of the Osaki Electric Group, the Strategic Management Division in conjunction with related departments shall plan and implement various measures to enhance effectiveness of the internal controls system at each subsidiary and provide guidance and support to the subsidiaries.
- \* The Internal Auditing Office implements the internal audits in consultation with each of the subsidiaries according to plan, audits the appropriateness and efficiency of duties, and makes efforts for reinforcement and improvement of the compliance organization.
- \* With the group helpline system, detecting and correcting violations of the law and unlawful conduct by officers and employees of the corporate group can be instituted and thus be applied to efforts to reinforce the compliance organization.
- \* Operations should be based on basic internal controls policy related to financial reporting, and reliability of financial reporting required by the Financial Instruments and Exchange Law should be secured.
- \* In addition to establishing a manual for handling anti-social forces, the company shall introduce a clause calling for the exclusion of organized crime to basic contract documents. As a member of society, the company shall refrain from holding any relations with anti-social forces that threaten the order and safety of civic society, and shall respond to any eventuality with a resolute attitude.

f) Items regarding employee status and employee independence from directors whenever the board of auditors requests duties from any employee for assistance.

- \* Employees in such positions shall be dedicated to assisting the duties of the auditor.
- \* Such employees shall not hold any co-duties in a post to execute duties of the company, shall conduct their duties under the auditor's direction and command, and shall submit to transfers with consent of the auditor.

g) Reporting organization to statutory auditors by director or employee, other reporting organization to statutory auditors

- \* Directors and employees, when they learn of any facts concerning significant violation of the law or articles of incorporation, facts of unlawfulness, or facts that may impose significant damages to the corporate group, shall report such matters to the board of auditors without delay.
- \* In addition to items prescribed by law, directors and employees shall report items that may have a serious effect on the corporate group, the implementation status of internal audits, and notifications regarding the group helpline system and their details to the board of auditors without delay.

h) Other organizations to secure effective auditing by statutory auditors

- \* The board of directors shall secure the attendance of statutory auditors to board meetings, management meetings, and other important meetings in order to secure appropriateness of duties.
- \* The representative director shall secure opportunities to regularly exchange opinions with the statutory auditors.

## Consolidated Financial Statements

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**Consolidated Balance Sheets**

Osaki Electric Co., Ltd. and Consolidated Subsidiaries

March 31, 2013 and 2014

ASSETS	Millions of yen		Thousands of U.S.dollars
	2013	2014	2014
<b>Current assets:</b>			
Cash and cash equivalents (Note 3)	¥ 11,133	¥ 10,763	\$ 104,584
Deposits (Note 3)	1,979	1,920	18,655
Notes and accounts receivable, trade	15,697	19,013	184,744
Finished products	3,611	4,477	43,504
Work in process	2,555	2,785	27,060
Raw materials, purchased components and supplies	4,202	5,218	50,703
Deferred income taxes	777	717	6,968
Other current assets	2,080	1,929	18,750
Allowance for doubtful receivables	(139)	(206)	(2,001)
Total current assets	41,898	46,619	452,969
<b>Fixed assets:</b>			
<b>Property, plant and equipment</b>			
Buildings and structures	22,390	22,060	214,349
Less-accumulated depreciation	(12,830)	(13,018)	(126,487)
Total buildings and structures	9,559	9,042	87,862
Machinery and equipment	14,143	13,822	134,306
Less-accumulated depreciation	(11,272)	(10,658)	(103,564)
Total machinery and equipment	2,871	3,164	30,742
Land	12,552	12,173	118,279
Lease assets	3,928	4,640	45,086
Less-accumulated depreciation	(975)	(1,211)	(11,772)
Total lease assets	2,953	3,428	33,314
Construction in progress	369	382	3,716
Other fixed assets	7,446	7,503	72,906
Less-accumulated depreciation	(6,713)	(6,816)	(66,233)
Total other fixed assets	733	686	6,672
Net property, plant and equipment	29,040	28,877	280,586
<b>Intangible assets</b>			
Goodwill	3,395	3,541	34,414
Other intangible assets	834	844	8,207
Total intangible assets	4,230	4,386	42,621
<b>Investments and other assets</b>			
Investment securities (Note 4)	4,083	4,432	43,062
Prepaid pension cost	581	-	-
Net defined benefit asset	-	879	8,544
Deferred income taxes	788	802	7,801
Other assets	2,043	1,928	18,735
Allowance for doubtful receivables	(9)	(7)	(76)
Total investments and other assets	7,487	8,034	78,067
Total fixed assets	40,758	41,299	401,276
<b>TOTAL</b>	¥ 82,656	¥ 87,918	\$ 854,245

*See notes to consolidated financial statements*

**Consolidated Balance Sheets**

Osaki Electric Co., Ltd. and Consolidated Subsidiaries

March 31, 2013 and 2014

LIABILITIES AND EQUITY	Millions of yen		Thousands of U.S.dollars
	2013	2014	2014
<b>Current liabilities:</b>			
Notes and accounts payable, trade	¥ 7,246	¥ 8,293	\$ 80,577
Short-term debt (Note 5)	5,923	5,232	50,843
Accrued income taxes	502	458	4,457
Accrued bonuses allowance	1,519	1,634	15,884
Accrued bonuses allowance for directors	123	129	1,255
Allowance for product warranties	16	15	151
Other current liabilities	4,800	4,057	39,422
Total current liabilities	20,132	19,821	192,592
<b>Long-term liabilities:</b>			
Bonds (Note 6)	8,000	13,000	126,311
Long-term debt (Note 5)	7,968	5,442	52,882
Lease obligation	1,010	866	8,421
Accrued retirement allowances	1,392	-	-
Accrued retirement allowances for directors	187	213	2,071
Net defined benefit liability	-	1,507	14,645
Consolidation adjusting accounts	624	468	4,549
Deferred income taxes	2,682	2,931	28,487
Other long-term liabilities	826	907	8,814
Total long-term liabilities	22,692	25,337	246,183
Total liabilities	42,825	45,158	438,775
<b>Contingent liabilities</b> (Note 7)			
<b>Equity:</b>			
Shareholders' equity			
Common stock:			
Authorized – 100,000,000 shares			
Issued 2014 – 38,550,684 shares and			
Issued 2013 – 38,550,684 shares	4,686	4,686	45,537
Capital surplus	4,775	4,775	46,401
Retained earnings	18,630	18,985	184,471
Treasury stock, at cost:			
2,885,515 shares in 2014 and			
2,902,195 shares in 2013	(1,849)	(1,838)	(17,861)
Total shareholders' equity	26,243	26,609	258,549
Accumulated other comprehensive income			
Unrealized gains on securities	398	769	7,480
Foreign currency translation adjustments	1,656	3,918	38,072
Remeasurements of defined benefit plans	-	106	1,032
Total accumulated other comprehensive income	2,054	4,794	46,585
Stock acquisition rights (Note 8)	249	298	2,896
Minority interests	11,283	11,057	107,439
Total equity	39,830	42,760	415,470
<b>TOTAL</b>	¥ 82,656	¥ 87,918	\$ 854,245

*See notes to consolidated financial statements*

**Consolidated Statements of Income**Osaki Electric Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2012, 2013 and 2014

	Millions of yen			Thousands of U.S.dollars
	2012	2013	2014	2014
<b>Net sales</b>	¥ 47,362	¥ 61,205	¥ 65,663	\$ 638,009
<b>Cost of sales</b>	34,449	44,817	48,660	472,794
Gross profit	12,912	16,387	17,003	165,214
<b>Selling, general and administrative expenses (Note 9)</b>	9,583	14,108	15,237	148,049
Operating income	3,329	2,278	1,766	17,165
<b>Non-operating income:</b>				
Interest income	22	30	37	361
Dividend income	125	500	220	2,145
Amortization of consolidation adjusting accounts	156	156	156	1,516
Others	91	276	238	2,315
	395	963	652	6,339
<b>Non-operating expenses:</b>				
Interest expenses	56	179	214	2,080
Loss on sales of property, plant and equipment	-	38	-	-
Foreign exchange loss	107	28	159	1,554
Commitment fee	309	9	9	97
Others	35	86	129	1,256
	509	342	513	4,988
Ordinary income	3,215	2,900	1,905	18,515
<b>Extraordinary gains:</b>				
Gain on sales of property, plant and equipment	7	-	-	-
Gain on sales of investment securities	-	-	131	1,273
Gain on sales of memberships	38	-	-	-
	46	-	131	1,273
<b>Extraordinary losses:</b>				
Loss on sales of property, plant and equipment	25	-	-	-
Impairment losses	417	-	236	2,295
Loss on disposal of property, plant and equipment	101	-	-	-
Devaluation of investment securities	235	246	-	-
Loss on sales of shares of subsidiaries and associates	-	-	34	338
Loss on liquidation of subsidiaries and affiliates	45	-	277	2,692
Structure improvement expenses	-	106	78	765
Devaluation of memberships	5	-	-	-
	829	352	626	6,091
Income before income taxes and minority interests	2,431	2,547	1,409	13,696
<b>Income taxes</b>				
Current	693	839	685	6,660
Deferred	(197)	179	21	205
	496	1,019	706	6,865
Income before minority interests	1,934	1,528	703	6,830
<b>Minority interests in consolidated subsidiaries</b>	595	56	(80)	(779)
<b>Net income</b>	¥ 1,339	¥ 1,472	¥ 783	\$ 7,610

*See notes to consolidated financial statements*

**Consolidated Statements of Comprehensive Income**

Osaki Electric Co., Ltd. and Consolidated Subsidiaries  
 Years ended March 31, 2012, 2013 and 2014

	Millions of yen			Thousands of U.S.dollars
	2012	2013	2014	2014
<b>Income before minority interests</b>	¥ 1,934	¥ 1,528	¥ 703	\$ 6,830
Other comprehensive income				
Unrealized gains on securities	(43)	561	393	3,820
Foreign currency translation adjustments	(22)	2,165	2,267	22,030
Share of other comprehensive income of entities accounted for using equity method	-	0	(0)	(4)
	(65)	2,727	2,660	25,846
<b>Comprehensive income</b>	¥ 1,869	¥ 4,255	¥ 3,363	\$ 32,676
Comprehensive income attributable to owners of the parent	1,277	4,194	3,417	33,202
Comprehensive income attributable to minority interests	592	61	(54)	(525)

**Consolidated Statements of Changes in Equity**

Osaki Electric Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2012, 2013 and 2014

	Millions of yen									
	Shareholders' equity									
	Common stock		Capital surplus		Retained earnings		Treasury stock, at cost		Total shareholders' equity	
<b>Balance at March 31, 2011</b>	¥	4,686	¥	4,770	¥	16,685	¥	(505)	¥	25,637
Cash dividends paid						(438)				(438)
Net income						1,339				1,339
Purchase of treasury stock								(1,350)		(1,350)
Disposal of treasury stock				5				7		12
Net changes of items other than shareholders' equity										
<b>Balance at March 31, 2012</b>		4,686		4,775		17,586		(1,848)		25,199
Cash dividends paid						(427)				(427)
Net income						1,472				1,472
Purchase of treasury stock								(0)		(0)
Disposal of treasury stock										
Net changes of items other than shareholders' equity										
<b>Balance at March 31, 2013</b>		4,686		4,775		18,630		(1,849)		26,243
Cash dividends paid						(427)				(427)
Net income						783				783
Purchase of treasury stock								(3)		(3)
Disposal of treasury stock				0				14		14
Net changes of items other than shareholders' equity										
<b>Balance at March 31, 2014</b>	¥	4,686	¥	4,775	¥	18,985	¥	(1,838)	¥	26,609

	Thousands of U.S.dollars									
	Shareholders' equity									
	Common stock		Capital surplus		Retained earnings		Treasury stock, at cost		Total shareholders' equity	
<b>Balance at March 31, 2013</b>	\$	45,537	\$	46,399	\$	181,017	\$	(17,968)	\$	254,986
Cash dividends paid						(4,157)				(4,157)
Net income						7,610				7,610
Purchase of treasury stock								(29)		(29)
Disposal of treasury stock				2				136		139
Net changes of items other than shareholders' equity										
<b>Balance at March 31, 2014</b>	\$	45,537	\$	46,401	\$	184,471	\$	(17,861)	\$	258,549

	Millions of yen						
	Accumulated other comprehensive income				Stock Acquisition rights	Minority interests	Total equity
	Unrealized gains on securities	Foreign Currency Translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
<b>Balance at March 31, 2011</b>	¥ (117)	¥ (487)	¥ -	¥ (605)	¥ 138	¥ 14,131	¥ 39,301
Cash dividends paid							(438)
Net income							1,339
Purchase of treasury stock							(1,350)
Disposal of treasury stock							12
Net changes of items other than shareholders' equity	(43)	(18)	-	(62)	53	(2,650)	(2,658)
<b>Balance at March 31, 2012</b>	(161)	(506)	-	(667)	191	11,481	36,204
Cash dividends paid							(427)
Net income							1,472
Purchase of treasury stock							(0)
Disposal of treasury stock							
Net changes of items other than shareholders' equity	559	2,162	-	2,721	57	(197)	2,582
<b>Balance at March 31, 2013</b>	398	1,656	-	2,054	249	11,283	39,830
Cash dividends paid							(427)
Net income							783
Purchase of treasury stock							(3)
Disposal of treasury stock							14
Net changes of items other than shareholders' equity	371	2,262	106	2,740	48	(225)	2,562
<b>Balance at March 31, 2014</b>	¥ 769	¥ 3,918	¥ 106	¥ 4,794	¥ 298	¥ 11,057	¥ 42,760

	Thousands of U.S.dollars						
	Accumulated other comprehensive income				Stock Acquisition rights	Minority interests	Total equity
	Unrealized gains on securities	Foreign Currency Translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
<b>Balance at March 31, 2013</b>	\$ 3,869	\$ 16,091	\$ -	\$ 19,961	\$ 2,427	\$ 109,633	\$ 387,008
Cash dividends paid							(4,157)
Net income							7,610
Purchase of treasury stock							(29)
Disposal of treasury stock							139
Net changes of items other than shareholders' equity	3,610	21,981	1,032	26,624	469	(2,194)	24,898
<b>Balance at March 31, 2014</b>	\$ 7,480	\$ 38,072	\$ 1,032	\$ 46,585	\$ 2,896	\$ 107,439	\$ 415,470

See notes to consolidated financial statements

**Consolidated Statements of Cash Flows**

Osaki Electric Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2012, 2013 and 2014

	Millions of yen			Thousands of
	2012	2013	2014	U.S.dollars
<b>Cash flows from operating activities :</b>				2014
Income before income taxes and minority interests	¥ 2,431	¥ 2,547	¥ 1,409	\$ 13,696
Adjustments to reconcile net income to net cash provided by operating activities -				
Depreciation and amortization	2,021	2,282	2,378	23,112
Impairment losses	417	-	236	2,294
Amortization of consolidation adjusting accounts	(156)	(156)	(156)	(1,516)
Amortization of goodwill	-	376	415	4,041
Increase (decrease) in allowance for doubtful receivables	43	19	42	410
Increase (decrease) in accrued bonuses allowance	(5)	57	52	509
Increase (decrease) in accrued bonuses allowance for directors	-	(127)	(13)	(132)
Increase (decrease) in allowance for product warranties	1	(12)	(1)	(11)
Increase (decrease) in accrued retirement allowances for directors	(21)	(17)	25	248
Increase (decrease) in accrued retirement allowances	130	73	-	-
Increase (decrease) in net defined benefit liability	-	-	113	1,107
Decrease (increase) in net defined benefit asset	-	-	(132)	(1,288)
Interest and dividend income	(147)	(531)	(257)	(2,506)
Interest expenses	56	179	214	2,080
(Gain) loss on sales of investment securities	-	2	(131)	(1,273)
Devaluation of investment securities	235	246	-	-
Loss (gain) on sales of shares of subsidiaries and associates	-	-	34	338
Loss on liquidation of affiliates	45	-	277	2,692
Structure improvement expenses	-	106	78	765
(Increase) decrease in notes and accounts receivable	(592)	1,462	(2,155)	(20,940)
(Increase) decrease in inventories	426	469	(1,456)	(14,155)
Increase (decrease) in notes and accounts payable	(452)	33	592	5,752
Other, net	263	(302)	153	1,489
Interest and dividend received	147	532	258	2,513
Interest paid	(57)	(178)	(203)	(1,975)
Income taxes paid	(1,953)	(322)	(723)	(7,027)
Net cash provided by (used in) operating activities	2,834	6,741	1,052	10,225
<b>Cash flows from investing activities :</b>				
Payments for property, plant and equipment	(2,214)	(3,999)	(3,052)	(29,655)
Proceeds from sales of property, plant and equipment	153	57	571	5,548
Payments for intangible assets	(256)	(510)	(283)	(2,753)
Payments for investment securities	(426)	(164)	(221)	(2,148)
Proceeds from sales of investment securities	-	7	495	4,810
Proceeds from refund of long-term deposits	1,000	-	-	-
Purchase of stocks of subsidiaries and affiliates	-	(1,250)	(1)	(15)
Payments for acquisition of shares of subsidiaries	(8,625)	(21)	-	-
Other, net	28	54	(32)	(313)
Net cash provided by (used in) investing activities	(10,340)	(5,828)	(2,524)	(24,527)
<b>Cash flows from financing activities :</b>				
Increase (decrease) in short-term debt, net	17,332	(14,166)	(603)	(5,864)
Proceeds from long-term debt	1,000	7,166	1,400	13,610
Payments for long-term debt	(1,775)	(1,339)	(4,608)	(44,775)
Proceeds from issuance of bonds	-	8,000	5,000	48,581
Payments for redemption of bonds	(4,500)	-	-	-
Repayment of lease obligation	(71)	(108)	(71)	(691)
Cash dividends paid	(440)	(428)	(427)	(4,158)
Payments for dividends to minority shareholders	(434)	(224)	(172)	(1,673)
Payments for treasury stock	(1,350)	(0)	(3)	(29)
Purchase of treasury stock of subsidiaries in consolidation	(2,850)	-	-	-
Decrease (increase) in collateral money payable for loan transactions	-	-	(700)	(6,801)
Other, net	0	-	0	0
Net cash provided by (used in) financing activities	6,909	(1,102)	(185)	(1,802)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	42	592	487	4,731
<b>Net increase (decrease) in cash and cash equivalents</b>	(553)	402	(1,170)	(11,372)
<b>Cash and cash equivalents at beginning of year (Note 3)</b>	13,197	12,643	13,046	126,765
<b>Cash and cash equivalents at end of year (Note 3)</b>	¥ 12,643	¥ 13,046	¥ 11,876	\$ 115,392

See notes to consolidated financial statements

## Notes to Consolidated Financial Statements

Osaki Electric Co., Ltd. and Consolidated Subsidiaries

### 1. Summary of Main Accounting Policies

Osaki Electric Co., Ltd., (“the Company”) and its Japanese subsidiaries maintain financial accounting books according to accounting principles generally accepted as fair and proper in Japan, and prepare financial statements accordingly. International subsidiaries maintain financial accounting books according to accounting principles generally accepted as fair and proper in their country of presence, and prepare financial statements accordingly.

#### (1) Fundamental Policy of Consolidation and Accounting Treatment of Investment in Affiliates

The consolidated financial statements of the Company include accounts of the Company and subsidiaries for which the Company owns a simple majority or more of shares. Transactions, debits and credits between consolidated companies are entirely eliminated.

#### (2) Foreign Currency Conversion

Monetary debits and credits in foreign currencies are converted into Japanese currency at the spot exchange rate on the consolidated financial closing date, and conversion differences are treated as income (loss). The assets and liabilities of foreign subsidiaries are converted into Japanese currency at the spot exchange rate on the financial closing dates of the respective subsidiaries, and revenues and expenses are converted to Japanese currency according to the average rate during the fiscal period. The conversion differences are included under foreign currency translation adjustments and minority interests in Equity.

#### (3) Cash and Cash Equivalents

Cash and cash equivalents include amounts converted easily to their stated values with slight fluctuation risks in value resulting from any variation in interest rate because of the short term until their maturity, and also high-liquidity investments that mature within three (3) months of their acquisition date.

#### (4) Marketable Securities

Marketable securities with fair market value are stated at fair market value, based on the quoted market price on the last day of the fiscal period (All valuation differences are directly charged or credited to shareholders’ equity and the costs of securities sold are computed by the moving average method). Securities without fair market value are stated at acquisition cost by being determined by the moving average method.

#### (5) Inventories

Finished products and work in process are stated mainly at acquisition cost according to the moving average method or total average method (asset values on the balance sheet are calculated by the book value write-down method based on decreased profitability). Build-to-order products are stated at acquisition cost by specific identification method (asset values on the balance sheet are computed by the book value write-down method based on decreased profitability).

Raw materials, purchased components and supplies are stated mainly at acquisition cost by the moving average method (asset values on the balance sheet are computed by the book value write-down method based on decreased profitability).

#### (6) Property, Plant and Equipment

Property, plant and equipment are stated at acquisition cost. By following the method and the identical standard provided in the Corporate Tax Law, depreciation expenses are computed mainly by the declining balance method for the Company and Japanese subsidiaries and the straight-line method for foreign subsidiaries.

#### (7) Intangible Assets

Intangible assets follow the straight-line method; however, for software used by the Company, the straight-line method based on the usable period (5 years) internally is applied.

#### (8) Leases

For financed lease transactions without ownership transfer, the accounting treatment refers to ordinary sale and purchase transactions. The depreciation method of lease assets related to financed lease transactions without ownership transfer adopts the straight-line method that sets the lease period as the service life and the residual value as zero.

#### (9) Allowance for Doubtful Receivables

To reserve against write-off losses for receivables, estimated uncollectable amounts are entered according to historical write-off experience for general receivables and collection potential for individual receivables with specific write-off concerns.



**(10) Accrued Bonuses Allowance**

In order to prepare for payment of employee bonuses, an allowance is entered on the basis of expected disbursement amounts.

**(11) Accrued Bonuses Allowance for Directors**

In order to prepare for payment of director bonuses, an allowance is entered on the basis of expected disbursement amounts.

**(12) Allowance for Product Warranties**

In order to prepare for expenses disbursed in the after-market servicing of products, an allowance is entered on the basis of past disbursement experience.

**(13) Accrued Retirement Allowances for Directors**

In order to prepare for retirement benefits disbursed to directors, the year-end disbursement required is entered in accordance with internal rules.

**(14) Accounting Treatment of Retirement Benefits**

In calculating retirement benefit obligations, the method of attributing the projected amounts of retirement benefits up until the consolidated fiscal year ended under report mainly refers to the point based plan. For differences arising mathematically, proportionate amounts derived by the straight-line method for the number of years (10) within the average remaining employment period of employees at the time of accrual mainly for the respective consolidated fiscal year are expensed, beginning in the consolidated fiscal year following their accrual.

Some consolidated subsidiaries apply a simplified method to the calculation of liabilities associated with retirement benefits and the expenses of retirement benefits where the self-determined disbursement required at year's end for retirement benefits is established as the liability for retirement benefits.

**2. U.S.Dollar Amounts**

U.S.dollar amounts presented in the financial statements are included solely for the convenience of the reader. These translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into U.S.dollars. As the amounts shown in U.S.dollars are for convenience only, the rate of ¥102.92 = U.S.\$1, the approximate current rate at March 31, 2014, has been used for the purpose of presentation of the U.S.dollar amounts in the accompanying consolidated financial statements.

**3. Cash and Cash Equivalents**

Cash and cash equivalents comprise the following:

As of March 31	Millions of yen		Thousands of
	2013	2014	U.S.dollars 2014
Cash and cash equivalents in the balance sheets	¥ 11,133	¥ 10,763	\$ 104,584
Deposits	1,979	1,920	18,655
Total	13,112	12,683	123,240
Time deposits	(66)	(107)	(1,046)
Collateral money payable for loan transactions	-	(700)	(6,801)
Cash and cash equivalents in the cash flow statements	13,046	11,876	115,392

**4. Investment in Securities**

Investment in securities comprise the following:

As of March 31	Millions of yen		Thousands of
	2013	2014	U.S.dollars 2014
Available-for-sale securities			
Acquisition cost	¥ 2,325	¥ 2,238	\$ 21,753
Fair value	2,886	3,320	32,262
Net unrealized gain	561	1,081	10,509

The Company devaluated available-for-sale securities by 246 million yen previous consolidated fiscal year

	Millions of yen		Thousands of U.S.dollars
	2013	2014	2014
As of March 31			
Investments in unconsolidated subsidiaries and affiliates	¥ 69	¥ 12	\$ 123
Investments in equity method affiliates	23	3	38
Investments in non-public companies and others	1,104	1,094	10,638

### 5. Short-term Debt and Long-term Debt

Short-term debt and long-term debt comprise the following:

	Millions of yen		Thousands of U.S.dollars
	2013	2014	2014
As of March 31			
Short-term debt:			
Unsecured	¥ 3,294	¥ 3,007	\$ 29,219
Secured	365	249	2,421
Current portion of long-term debt	2,264	1,976	19,203
Net short-term debt	5,923	5,232	50,843

	Millions of yen		Thousands of U.S.dollars
	2013	2014	2014
As of March 31			
Long-term debt:			
Unsecured	¥ 8,180	¥ 6,648	\$ 64,601
Secured	2,052	770	7,483
Less current portion	2,264	1,976	19,203
Net long-term debt	7,968	5,442	52,882

### 6. Bonds

Bonds comprise the following:

	Millions of yen		Thousands of U.S.dollars
	2013	2014	2014
As of March 31			
Unsecured zero coupon convertible bonds in yen, due July 2017	¥ 8,000	¥ 8,000	\$ 77,730
0.89% unsecured bonds in yen, due June 2016	-	5,000	48,581
Net bonds	8,000	13,000	126,311

### 7. Contingent Liabilities

Contingent liabilities comprise the following:

	Millions of yen		Thousands of U.S.dollars
	2013	2014	2014
As of March 31			
Guarantee amounts	¥ 60	¥ -	\$ -

### 8. Stock Acquisition Rights

Stock acquisition rights comprise the following:

	Millions of yen		Thousands of U.S.dollars
	2013	2014	2014
As of March 31			
Stock acquisition rights as the stock options	¥ 249	¥ 298	\$ 2,896

## 9. Research and Development Expenses

Research and development expenses comprise the following:

As of March 31	Millions of yen			Thousands of U.S.dollars
	2012	2013	2014	2014
Selling, general and administrative expenses	¥ 1,816	¥ 2,252	¥ 2,480	\$ 24,099

## 10. Segment Information

The business of the Company and its consolidated subsidiaries is divided into the following three categories.

### Measurement and control equipments:

Watt-hour meters, Current limiter, Instrument VCT, Distribution panels & Supervisory control boards, Time switches, Optical communication device, Meter reading systems.

### FPD assembly equipments:

Sensor related equipments, Energy related equipments, FPD related equipments.

### Real estate: Estate for rent

### Business segments –

Year ended March 31	Millions of yen					
	2013					
	Measurement and control equipments	FPD assembly equipments	Real estate	Total	Adjustment	Consolidated
Sales to customers	¥ 59,455	¥ 1,399	¥ 349	¥ 61,205	¥ -	¥ 61,205
Intersegment sales	30	125	114	270	(270)	-
Total sales	59,486	1,525	463	61,476	(270)	61,205
Operating income	2,618	(482)	166	2,301	(22)	2,278

The segment income is adjusted by fixed assets.

Year ended March 31	Millions of yen					
	2014					
	Measurement and control equipments	FPD assembly equipments	Real estate	Total	Adjustment	Consolidated
Sales to customers	¥ 64,001	¥ 1,301	¥ 360	¥ 65,663	¥ -	¥ 65,663
Intersegment sales	25	-	113	138	(138)	-
Total sales	64,027	1,301	473	65,802	(138)	65,663
Operating income	2,103	(525)	181	1,760	6	1,766

The segment income is adjusted by fixed assets.

For the FPD Assembly Equipment Business, an impairment loss of fixed assets of 236 million yen is recognized and booked as an extraordinary loss.

Year ended March 31	Thousands of U.S.dollars					
	2014					
	Measurement and control equipments	FPD assembly equipments	Real estate	Total	Adjustment	Consolidated
Sales to customers	\$ 621,858	\$ 12,650	\$ 3,500	\$ 638,009	\$ -	\$ 638,009
Intersegment sales	246	-	1,099	1,346	(1,346)	-
Total sales	622,104	12,650	4,600	639,355	(1,346)	638,009
Operating income	20,440	(5,101)	1,762	17,101	63	17,165

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## Independent Auditor's Report

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### **HARA AUDIT CORPORATION**

264 New-Ohtemachi Bldg.  
2-2-1, Ohtemachi, Chiyoda-ku  
Tokyo 100-0004, JAPAN

To the Shareholders and Board of Directors of  
Osaki Electric Company, Limited

We have audited the accompanying consolidated balance sheets of Osaki Electric Company, Limited (“the Company”) and its consolidated subsidiaries as of March 31, 2013 and 2014, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the years ended March 31, 2013 and 2014, and the related notes, 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 conformity 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 Company'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 Company'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.

Audit opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as of March 31, 2013 and 2014, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Also, in our opinion, the translated amounts in the accompanying consolidated financial statements translated into U.S. dollars have been computed on the basis set forth in Note 2 to the consolidated financial statements.

*Hara Audit Corporation*

Tokyo Japan

June 27, 2014

## Osaki Group Companies

COUNTRY	COMPANY	SEGMENT
JAPAN	OSAKI ELECTRIC CO., LTD.	● ●
	ENEGATE CO., LTD.	●
	OSAKI ELECTRIC SYSTEMS CO., LTD.	●
	IWATE OSAKI ELECTRIC CO., LTD.	●
	OSAKI DATATECH CO., LTD.	●
	OSAKI ENGINEERING CO., LTD.	●
	OSAKI ESTATE CO., LTD.	●
SINGAPORE	OSAKI UNITED INTERNATIONAL PTE.LTD.	●
	SMB ELECTRIC PTE LTD	●
	EDMI LIMITED	●
MALAYSIA	SMB UNITED INDUSTRIES SDN BHD	●
CHINA	EDMI SHENZHEN CO.,LTD	●

- Measurement and control equipments
- FPD assembly equipments
- Real estate

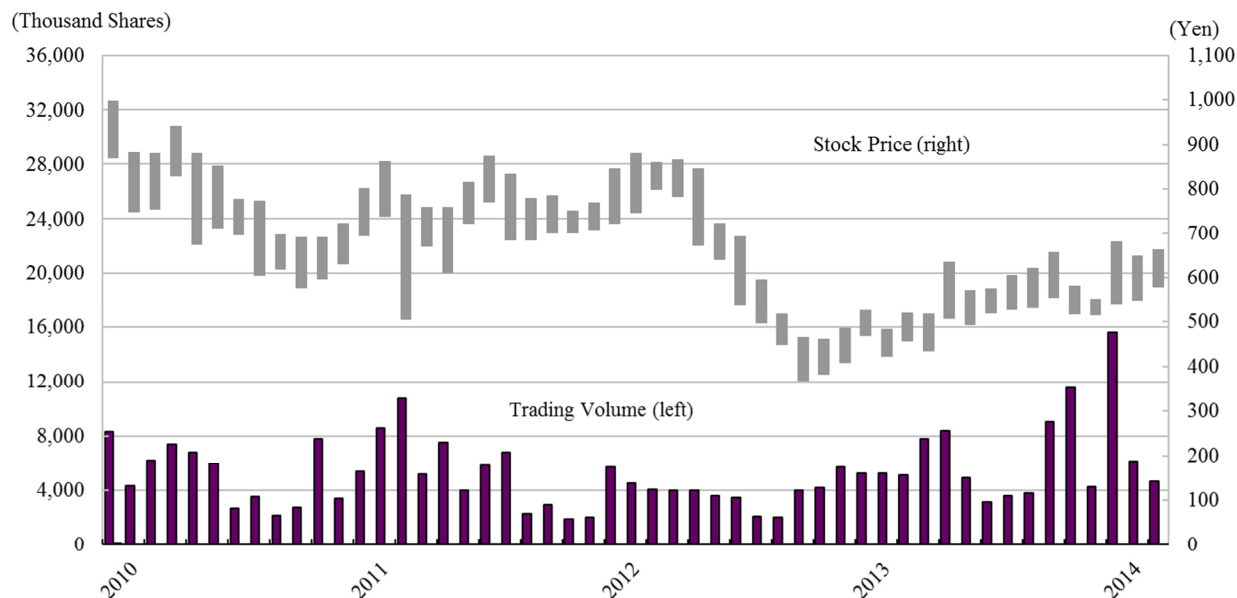
## Stock Information

(As of March 31, 2014)

### Common Stock

Authorized	:	100,000,000
Issued	:	38,550,684
Number of Shareholders	:	4,173

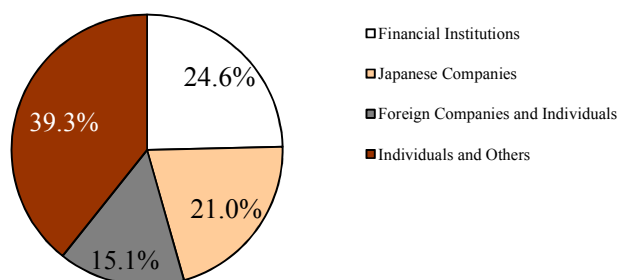
### Stock Price Range and Trading Volume (Tokyo Stock Exchange)



### Major Shareholders

	Number of shares	
	(Thousand shares)	(%)
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,552	4.3
Osaki Electric cooperation company shareholding commission	1,531	4.2
Kyuden Technosystems Corporation	1,389	3.8
Yoshihide Watanabe	1,152	3.2
Fukoku Mutual Life Insurance Company	1,104	3.0

### Breakdown of Shareholders



## Investor Information

(As of March 31, 2014)

### Management

#### REPRESENTATIVE DIRECTORS

##### **Chairman and CEO**

Yoshihide Watanabe

##### **President and COO**

Yoshio Matsui

##### **Executive Vice President**

Mitsuyasu Watanabe

#### DIRECTORS

##### **Senior Managing Director**

Haruyuki Kawabata

##### **Managing Directors**

Sumio Takano

Kazuo Nemoto

##### **Directors**

Kuniaki Numazaki

Toshio Yamanaka

Satoshi Komazawa

Choichiro Hori

Shigeru Mizuta

Hiroyuki Yokoi

Masakazu Ohata

Ryuichi Ueno

Hisao Tobusawa

#### CORPORATE AUDITORS

##### **Standing Auditor**

Nobu Yoshino

##### **Auditors**

Kenichiro Takahashi

Tatsuo Abiru

Shigehiko Yamamoto

Notes:

Mr. Tatsuo Abiru and Mr. Shigehiko Yamamoto are outside Corporate Auditors.

### Corporate Data

#### **Osaki Electric Co., Ltd.**

Head Office

10-2, Higashi-Gotanda 2-chome

Shinagawa-ku Tokyo 141-8646

JAPAN

Phone : 81-3-3443-7171

#### **Date of Founding**

January 26th, 1937

#### **Paid-in Capital**

¥ 4,686 million (US\$ 45 million)

#### **Stock Exchange Listings**

Tokyo Stock Exchange

#### **Independent Public Accountants**

Hara Audit Corporation

Tokyo, JAPAN

#### **Transfer Agent**

Mitsubishi UFJ Trust and Banking Corporation

Transfer Agency Department

10-11, Higashi-Suna 7-chome

Koto-ku, Tokyo 137-8081

JAPAN

Phone : 81-3-5683-5111

For further information, please contact:

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