



ANNUAL REPORT
2018

OSAKI ELECTRIC CO.,LTD.

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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
	2014	2015	2016	2017	2018	2018
For the year:						
Net sales	¥ 65,663	¥ 77,366	¥ 75,596	¥ 86,159	¥ 78,780	\$ 741,532
Operating income	1,766	3,270	3,738	7,692	5,544	52,188
Profit attributable to owners of parent	783	2,754	1,493	3,803	2,666	25,100
At year-end:						
Total assets	87,918	89,579	87,428	92,206	86,012	809,605
Total equity	42,760	50,537	51,028	55,347	57,840	544,435
Number of employees	3,534	3,069	3,077	3,078	2,960	
Per share of common stock:						
	Yen					U.S. dollars
Net income	¥ 21.96	¥ 74.30	¥ 33.46	¥ 80.65	¥ 54.64	\$ 0.51
Cash dividends	12.00	15.00	12.00	20.00	20.00	0.18
Equity	880.54	875.32	854.31	913.09	957.09	9.00

Notes : U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥106.24=U.S.\$1
the approximate Tokyo foreign exchange market rate as of March 31, 2018

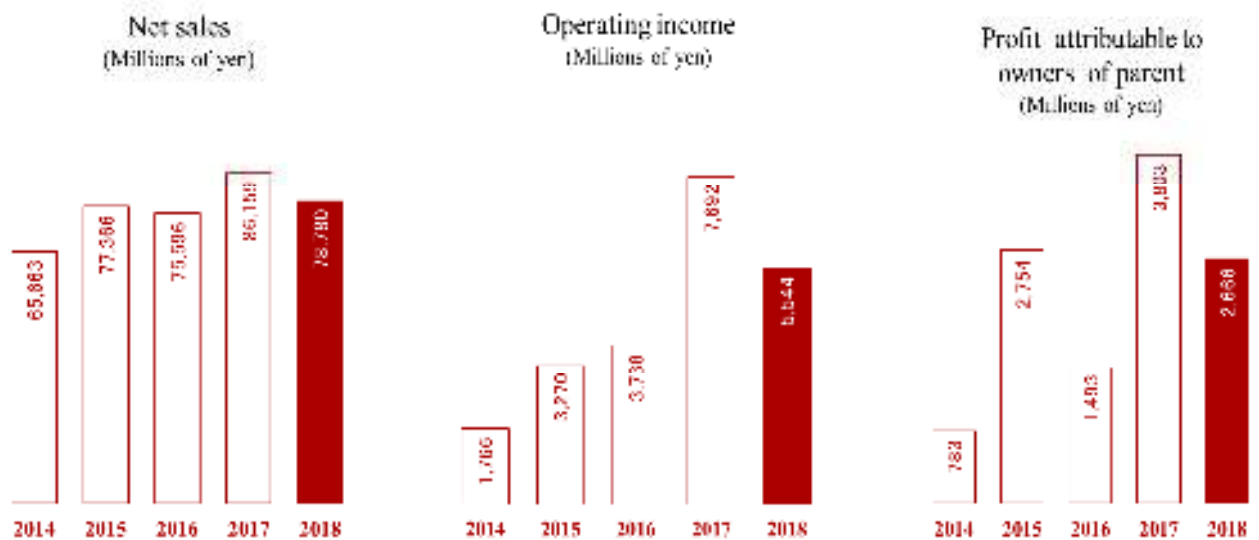
Business segments -**Measurement and control equipment:**

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

FPD Assembly equipment:

Sensor related equipment, Energy related equipment, FPD related equipment.

Real estate: Estate for rent.



Message from the Chairman and President

TO OUR SHAREHOLDERS

Since its founding in 1916, the Osaki Group remained committed to improving precisions and reliability in delivering top-class products and services for power measurement and control. Moreover, the Groups has developed and delivered high-performance devices and systems through partnerships with major power companies. Today, the Group has grown as a total solution provider for power measurement and control, providing smart meters, along with software to maximize performance, systems and related services in Japan as well as in the international market.

Given the worldwide effort in efficient energy use, the power infrastructure systems are expected to go under critical transition phase. Furthermore, the same effort has prodded the Smart City concept toward reality in recent years. In Japan, power retail deregulation allowed consumers more choices in how electricity is supplied and used, while the government is leading the introduction of residential smart meters.

Under these business environments, the Group is leveraging its market leading position and strong relationships with power companies to further expand business and technology.

Our dedication to the industry and position as an independent meter manufacture widens opportunities to collaborate with different partners. This flexibility has allowed us to expand our solutions and services offering, including IoT and AI services. Furthermore, our global operations allow to respond to regional needs in global markets, recognizing that the timing of introduction, metrology, safety and services specifications, and communication format for smart meters vary among countries and regions around the world.

At the Osaki Group, we are committed to deliver value-added energy solutions and contribute to the realization of prosperous and comfortable society all over the world. We will continue to pursue our goal in becoming the “Global Energy Solution Leader.”

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

M. Watanabe
President and COO
OSAKI Electric Co., Ltd.

Management Policy

1. Basic Corporate Policy

The Osaki 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 and global-warming abatement through the development of smart meters, as well as provision of a broad portfolio of equipment, systems, and services for efficient usage of energy. These products serve to build “smart grid” or the extended customer services and measures for efficient power use by electric power companies. Furthermore, the products support automated meter-reading systems, diverse electricity tariff menus, load balancing that includes peak usage shifting, and effective adoption of renewable energy.

Other Business segment aims for a continual, stable growth of FPD manufacturing and mounting systems that have successfully propelled the business thus far as core products, as well as proactively developing new businesses in sensor device, energy, and lighting-related equipment markets that represent a promising growth area, in an aim to enhance customer satisfaction and to become a leading company in the mounting apparatus industry.

2. Measurable Target for Management

The management pursues the efficiency of shareholder equity. The group aims to attain 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) In response to high levels of orders for smart meters in Japan, the group will establish resilient business foundation by reinforcing a supply framework to attain cost reductions and enhanced profits. In the global market, the group will develop comprehensive energy measurement and management systems.
- (2) For the general commercial market, the group provides services for energy consumption diagnostics and consulting for improved plant equipment operation, equipment updates, and energy procurement. The group intends to expand sales in energy-saving services, including BEMS (Building Energy Management System) for commercial complexes and smaller buildings, and HEMS (Home Energy Management System) for general residential use.
- (3) For Other Business, the group reinforces and expands core technologies concerning fine-pitch mounting and customized equipment developed through FPD assembly and IC card equipment experience. Mid- and long-term corporate strategy looks at development and expansion into new fields where these core technologies can be effectively deployed.

4. Fundamental Policy Regarding Distribution of Profits

Recognizing profit distribution to shareholders as one of important management measures, Osaki Electric sets basic policy to carry out the continual distribution of a steady dividend to shareholders, while providing additional performance-based dividends. Retained earnings are spent in R&D investments and capital expenditures towards long-term increase of corporate value. The company will leverage the aforementioned spending for future business growth and elevated 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 under report, the annual dividend is 20 yen per share (of which 10 yen was the interim dividend).

Basic Equity Policy

The Company aims for sustained enhancement of shareholder value. The basic approach is to retain sufficient shareholder's equity required to ensure rapid and definite execution on expanding business opportunity.

To allow for dynamic responsiveness to changes in our operating environment and execution of management initiatives like financial policy to bolster enhanced shareholder value, we will also study the repurchase of our own stock.

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

Date of Resolution	Total Dividend (Million Yen)	Dividend per Share (Yen)
Board of directors' resolution of Oct. 31, 2017	488	10.00
Annual general shareholders meeting resolution of June 28, 2018	488	10.00

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Present status of Business

1. Business Performance

(1) Overview of Operating Results of This Fiscal Year

Japanese economy during the consolidated fiscal year under review continued to experience improvements in corporate revenue, as well as in the employment and incomes with a slow but steady recovery. Concerns remain over uncertainty in the international economy and the influence of fluctuation in the financial capital markets. Nonetheless, a number of government policies has taken effect, and a gentle recovering trend is expected.

With respect to the business environment surrounding the Measurement and Control Equipment Business, an advancement in deregulation and separation of power distribution and generation has been observed, while efforts in restarting operations of nuclear power plants remained unsuccessful, leading to foggy outlook for the market. Meanwhile, the smart meters entered the full-fledged market penetration, and demand remained at high levels, despite temporary and partial inventory accommodation. In the global market of electricity meters, the demand for smart meters in main target countries, maintains a steady tracking, although delays to introduction plans are seen in some places like Africa.

Under these circumstances, the 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.

Consolidated net sales decreased by 8.6% compared to the prior year to 78,780 million yen due to phasing delays of the UK smart meter project, decreased sales from emerging nations, decreased sales of smart meters in Japan, and decreased sales from terminating products as a penetration consequence of smart meters.

With respect to income, consolidated operating income decreased by 27.9% from the prior year for operating income of 5,544 million yen due to decrease in net sales. Ordinary income and the profit attributable to owners of parent decreased by 24.1% to 5,634 million yen and 29.9% to 2,666 million yen from the prior year respectively.

Starting with this consolidated year under review, the reported business segments have changed.

(2) Business Segments

Measurement and Control Equipment Business

Demand for smart meters shipped to electric power companies in Japan dropped in some regions as a consequence of inventory accommodation. On the revenue front, net sales declined for electricity meters for overseas markets, mechanical electricity meters for Japan, termination of products such as time switches for electric power companies, and for distribution boards and panels. Consequently, this segment experienced a decrease in net sales by 9.5% from the prior year to 76,947 million yen. Following the drop in net sales, operating income decreased by 32.6% from the prior year to 5,330 million yen.

Other Business

This segment recorded net sales of 1,977 million yen, and operating income of 206 million yen.

Segment net sales reflect inter-segment sales or transfers amounting to 144 million yen.

(3) Future Outlook

The Measurement and Control Equipment Business notes that the full-fledged market introduction of smart meters by electric power companies in Japan is in process and finds persistently high levels of demand. Competition among manufacturers is intense and order-acceptance pricing from the electric power companies is tough, however, and our immediate profitability remains difficult to foresee. Meanwhile, energy management-related products and services continue in an expansion trend for demand. In addition, OUI (OSAKI United International, Pte. Ltd.) driving the global business had observed delays to the UK Government's smart meter rollout plans; however, demand is expected to pick up in the latter half of the fiscal year.

Despite the tough environment, the Measurement and Control Equipment Business has further reinforced its production organization of smart meters, for which high levels of orders have been secured. 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 in the energy management systems domain through the introduction of new products and services.

The outlook for the fiscal year ending March 31, 2019 includes consolidated net sales of 86,000 million yen, consolidated operating income of 6,000 million yen, ordinary income of 6,000 million yen, and profit attributable to owners of parent of 3,300 million yen.

Consolidated Business Performance Outlook

Net sales	:	86,000 million yen (9.2% increase over prior year)
Operating income	:	6,000 million yen (8.2% increase over prior year)
Ordinary income	:	6,000 million yen (6.5% increase over prior year)
Profit attributable to owners of parent	:	3,300 million yen (23.7% increase over prior year)

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

2. Overview of Financial Condition for This Fiscal Year

With respect to total assets for the consolidated fiscal year ended March 31, 2018, cash and equivalents decreased by 1,398 million yen, notes and accounts receivable, trade, decreased by 1,183 million yen, inventories decreased by 1,742 million yen, other current assets decreased by 544 million yen, and plant, property and equipment decreased by 589 million yen. Thus, total assets decreased by 6,194 million yen from the prior year's end to 86,012 million yen.

Among liabilities, notes and accounts payable, trade together with electronically recorded obligations-operating decreased by 1,307 million yen, short-term debt and long-term bank loans decreased by 3,813 million yen, and other current liabilities decreased by 2,667 million yen. Thus, total liabilities decreased by 8,687 million yen from the prior year's end to 28,171 million yen.

Total equity benefited from increases including retained earnings of 1,593 million yen, foreign currency translation adjustments of 380 million yen, and non-controlling interests of 276 million yen, and thus increased by 2,493 million yen over the prior year's end to 57,840 million yen.

The equity ratio rose 6.0 points over the prior year's end to 54.3%.

(Unit: million yen)

	Total assets (million yen)	Total liabilities (million yen)	Total equity (million yen)	Equity ratio
Year ended March 2018	86,012	28,171	57,840	54.3%
Year ended March 2017	92,206	36,859	55,347	48.3%
Difference	(6,194)	(8,687)	2,493	6.0 points

3. Cash Flows

Balances of cash and cash equivalents for the consolidated fiscal year under review totaled 13,701 million yen with a decrease of 1,716 million yen from the prior year's end.

	Year Ended March 2017 (million yen)	Year Ended March 2018 (million yen)	Difference (million yen)
Cash flows from operating activities	7,369	8,110	741
Cash flows from investing activities	(4,302)	(4,305)	(2)
Cash flows from financing activities	(3,142)	(5,510)	(2,367)
Cash and cash equivalents at end of year	15,417	13,701	(1,716)

(1) Cash flows from operating activities

Cash flows from operating activities resulted in net cash acquired of 8,110 million yen, accounting for depreciation and amortization of 2,820 million yen, a decrease by 1,294 million of notes and accounts receivable, a decrease by 1,968 million yen of inventories, a decrease by 1,426 million of notes and accounts payable, and income taxes paid of 2,360 million yen as factors offsetting income before income taxes and minority interests.

(2) Cash flows from investing activities

With respect to cash flows from investing activities, payments for property, plant and equipment of 3,707 million yen resulted in net cash used of 4,305 million yen.

(3) Cash flows from financing activities

With respect to cash flows from financing activities, a net decrease by 3,772 million yen of short-term debt and long-term bank loans and cash dividends paid of 1,671 million yen including non-controlling interests accounted for net cash used of 5,510 million yen.

4. Business Environment and Responses to Business Challenges

(A) Measurement and Control Equipment Business

Business segment for the domestic power market saw severe competition due to the introduction of competitive bidding by electric power companies, and the significant decline in product selling prices has led to tough business environment to continue.

Smart meters, the next-generation electricity meter for the electric power companies in Japan, entered a full-fledged penetration phase with persistent, high levels of demand. Amidst this environment, we are making group-wide efforts to develop products that meet the needs of the power companies with high functionality, high quality and high reliability and that remain highly competitive. Although we have acquired a large market share for smart meters comparable to conventional meters, continued efforts for cost reductions are being promoted, in order to match selling prices that declined through competition among manufacturers. The impact of accelerated introductions presents a concern of demand decrease in a few years, but we intend to avert revenue decline at a minimum by maintaining high market share. In terms of energy management-related products and services where expansion in demand is expected, we seek to introduce new products and services and promote active order-taking activities as efforts towards creating new revenue streams. Osaki United International, Pte. Ltd. driving our international business operations had seen a delay in smart meter rollout plans by the UK Government; however, demand is expected to pick up in the latter half of Fiscal 2018. With respect to international operations, we will reinforce our smart meter production and supply framework in response to the UK initiatives, and engage in further cost reductions, including the communications hubs which are already shipping. Business expansion is under study for new markets, where increase in demand is foreseen for smart meters in the near future.

(B) Other Business

The FPD Assembly Equipment Business looks to review its strategy for securing business orders by focusing on specialized in-vehicle FPDs and high-margin products like high-quality sensor devices as growth businesses, and to engage in cost cutting and reducing turnaround times. We intend to enhance customer satisfaction in sales and service and promote increases in orders received by expanding customers.

The Real Estate Business strives to improve the rate of return on investment through improved occupancy rates and cost reductions.

5. Risks in Business Operations

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

(1) Fluctuation in Demand

The market for the products manufactured by the Group 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 Osaki 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 Group.

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

The OSAKI 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 Osaki Group.

(3) Stock Price Fluctuation

The owns approximately 5.9 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 Osaki Group.

(4) Real Estate Price Fluctuation

The Osaki Group owns real estate in the form of land and buildings. A decline in prices of real estate holdings may impose an adverse effect on the business performance and financial condition of the Osaki Group.

(5) Product Failure

Manufacturing in the Osaki 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 Osaki Group.

(6) Business Concentration on Select Customers

Among the customers of the Osaki Group, the Measurement and Control Equipment Business mainly delivers electricity meters as its core product line, measuring instrument converters, and monitor control apparatuses to electric power companies within and outside Japan. The sum of net sales to power companies and their associated companies accounts for a majority of total net sales. Changes in business format of customers or in the business relationship may impose an adverse effect on the business performance and financial condition of the Osaki Group.

(7) Corporate Acquisition

The Osaki Group may engage in corporate mergers and acquisitions and in business reorganizations for purposes of business expansion or reinforcing competitiveness. 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 Osaki Group.

(8) Foreign Exchange Fluctuation

The Osaki Group engages in its global business with Osaki United International, Pte. Ltd., 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 Osaki Group.

(9) Other Risks

The production facilities of the Osaki 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 Osaki 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 Osaki Group.

6. Contracts Material to Operating Management

There are no particular matters to note.

7. Research and Development

The Osaki Group is maintaining a product development organization capable of immediate response to the needs of an era facing sudden changes, 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 Osaki Group for the consolidated fiscal year under report totaled 3,398 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, whose demand has vastly increased in response to changes in the energy delivery environment, such as the liberalization of retailing electric power and gas. As smart meter deployments at domestic power companies enter the full-fledged penetration phase, R&D for electricity meters is advancing through alignment with group companies in response to needs. We are engaged in the development of a series to broaden the product portfolio, technical support for the communication component for smart meters, and R&D for enhanced competitiveness.

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

In contributing to improved efficiencies in energy supply and demand as a measurement and control equipment manufacturer, our systems equipment R&D primarily comprises the modification and wider application of energy management systems like BEMS, which targets mid- and small-sized buildings and commercial facilities, and HEMS, which targets general residential housing; the development of commercial smart metering systems and home energy management equipment that apply measurement technologies of smart meters and various communication technologies; and energy management of the foregoing. In addition, we have started to study new business domains, for which development of applicable equipment, systems, and server environments is underway.

With respect to our metering systems business, we are engaged in development of handheld terminals and printers as metering devices, and metering system apps for smartphones and tablets. The efforts of product and systems development reflect our response to customer needs.

The R&D expenses of this segment totaled 3,386 million yen.

(B) Other Business

Development for the FPD Assembly Equipment segment pertains to manufacturing equipment for mounting FPD modules around core technologies of fine pitch 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 11 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.

8. Plant and Facilities**Overview of Capital Expenditures**

The Osaki Group continually programs capital expenditures for purposes of maintaining and increasing production capacity and fulfilling and reinforcing R&D functions. Capital expenditures totaled 2,403 million yen for the consolidated fiscal year under report.

The Measurement and Control Equipment Business invested 2,336 million yen mainly in facilities associated with electricity meters, and Other Business invested 66 million yen.

There were no disposals or sales of material facilities.

9. Corporate Governance**(1) Fundamental Approach to Corporate Governance**

Osaki Electric recognizes that the enhancement of corporate governance is one of the most important issues in terms of achieving management's goal of enhancing corporate value. The Group is committed to serving the interest of our stakeholders. Moreover, the Osaki Group will further improve management efficiency and transparency, and aim for fair management practices. We make continuous 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. The Company established the board of auditors that includes outside auditors, provides an auditing function by statutory auditors, and thus serves as a management oversight function. The auditors consist of four members, of which two are outside auditors and independent officers who maintain independence and objectivity of management oversight functions by providing an external checking function. Moreover, one statutory auditor has accounting experience in serving as the director of accounting for the Company with considerable knowledge of finance and financial accounting.

The directors consist of fifteen members. Two of these members are independent outside directors, who participate in management as members of the board of directors, from whom appropriate advice concerning overall management of the Company can be solicited, and by whom decision-making and oversight functions of the board of directors can be reinforced. These benefits are considered to be an asset in improving the enterprise value of the Company.

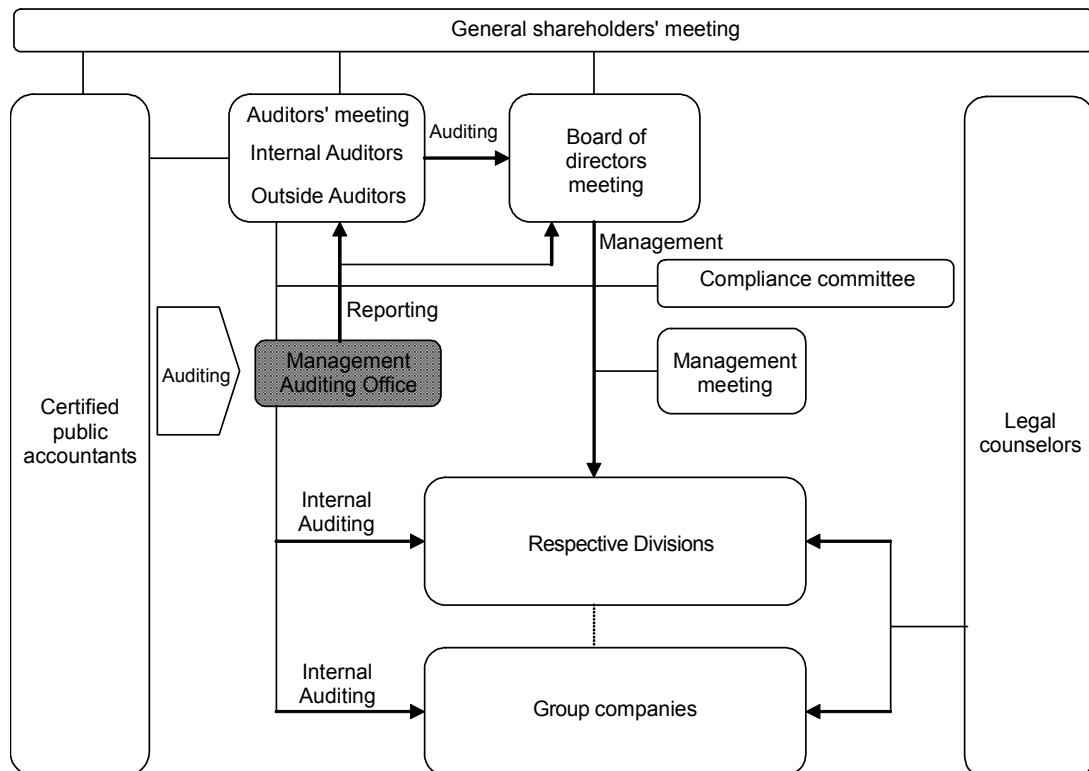
In accordance with the “Statutes Partially Revising the Companies Law” (2014 Statute No. 90) instituted on May 1, 2015, the Company executed agreements, based on Article 427, Section 1 with the non-executive directors and auditors that limit liability for compensation of damages provided in Article 423, Section 1 of the Companies Law. Authorization of such limited liability based on the agreements is restricted to good intentions and no serious negligence in the execution of duties that caused the liability imposed on the subject director or auditor, and the amount of limited liability for compensation of damages is set at the statutory figure.

In addition to the auditor policy that includes independent outside auditors, the Company considers the board of directors’ function that includes independent outside directors to be the optimum form of corporate governance organization for the Company.

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 deliberate management issues.

In 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 Group companies to instill the purposes of compliance. The committee also issues the Osaki Group Compliance Handbook to promote compliance awareness and maintain compliance organizations. Concerning legal and accounting matters, moreover, 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 of the Company and its subsidiaries

- * The Company establishes the compliance committee, which sets forth the code of practice and compliance manual at the Osaki Group companies. The company also issues and promotes the Osaki Group Compliance Handbook so that officers and employees of the Company and its subsidiaries observe the law, the articles of incorporation, internal company rules, and social norms.
- * Based on management rules of the Osaki Group, the Company 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 of the Company and those subsidiaries with no internal audit department in accordance to schedule, audits the appropriateness and efficiency of duties, and makes efforts for reinforcement and improvement of the compliance organization.
- * Through appropriate operations of the helpline system, the Osaki Group shall devise early detection and correction to violations of the law and unlawful conduct by officers and employees, and thus apply efforts to reinforce the compliance organization.
- * The Osaki Group shall conduct operations based on the basic internal controls policy related to financial reporting and secure the reliability of financial reporting required by the Financial Instruments and Exchange Law.

- * As a member of society, Osaki Group, based on its code of practice, 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.

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

- * The Company shall record information and documents related to the execution of duties by directors 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 of the Company are entitled to have access to these documents during business hours.

c) Rules and other organizations related to managing risk of loss of the Company and its subsidiaries

- * At the Company, each department as well as each committee (Compliance, Quality Control, Environmental Conservation, Product Liability, Export Administration) of the Company 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. At any subsidiary, the Company shall instruct the arrangement of a comparable organization and establish an organization that delivers the appropriate information to the Company in the event of any unforeseen developments.
- * The Internal Auditing Office audits the risk management status of the Company and those subsidiaries with no internal audit office through an internal audit. The office reports the results periodically at board meetings of the Company, where improvement measures will be deliberated and decided.

d) Organization to secure efficient execution of duties by directors of the Company and its subsidiaries

- * The Company establishes goals of the Company and entire Osaki Group shared by directors at the beginning of each year and prepares a specific annual operating plan to achieve the goals. Furthermore, achievement of the goals is reviewed monthly and quarterly. Feedback of the results to departments of the Company and subsidiaries secures effectiveness and efficiency of operations.
- * The Company convenes board of directors' meetings monthly in principle, and otherwise as necessary to respond efficiently to dynamic changes in the management environment of Osaki Group.
- * In principle, the Company convenes management meetings composed of senior directors weekly to conduct multi-faceted studies and discussions over management issues that affect the corporate Osaki Group.
- * Execution of daily duties at the Company and subsidiaries shall be based in accordance with occupational duty authority rules and internal approval process rules.

e) Organization concerning reporting to the Company regarding matters associated with executing duties by board members of subsidiaries of the Company

- * Based on operating management rules of the Osaki Group, every subsidiary of the Company bears the obligation of reporting important management matters associated with said subsidiary to the Company.
- * For subsidiaries within Japan, the Company in principle convenes group management council meetings to discuss business performance and other necessary matters of such subsidiaries. Major subsidiaries outside Japan periodically report business performance and other important management issues to the board of directors of the Company.

f) Items regarding employee status, employee independence from directors, and securing effectiveness of direction given to said employee, whenever a statutory auditor of the Company requests placement of an employee for assistance in the auditor's duties.

- * Dedicated employees shall be placed to assist the duties of the auditors.
- * Such employees that assist the duties of the auditor shall not hold any co-duties in a post to execute operations 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 of the Company, or by director, statutory auditor, or employee of a subsidiary of the Company (including anyone who received a report from the foregoing), organization to assure no unfavorable treatment as a consequence of such reporting to anyone who provides such reporting

- * Whenever a director, employee, or subsidiary's statutory auditor in the Osaki Group learns, in regard to execution of duties, 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 Osaki Group, the Company shall secure an organization that reports such matters to the statutory auditors of the Company without delay.
- * The Company shall secure an organization where, in addition to items prescribed by law, directors, employees, and subsidiaries' statutory auditors in the Osaki Group shall report items that may have a serious effect on the Osaki Group, the implementation status of internal audits, and notifications regarding the group helpline system and their details to the statutory auditors of the Company without delay.
- * The Osaki Group shall refrain from imposing any unfavorable treatment like discharge or anything else to informants, for reasons of informing through the helpline system.

h) Items concerning policy associated with expenses incurred and liabilities processed in execution of duties by statutory auditors of the Company

- * The directors of the Company shall execute necessary budgetary measures for the expenses associated with auditing, in order to secure smooth audits by the statutory auditors.

i) Organizations to otherwise secure effective auditing by statutory auditors of the Company

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

Consolidated Financial Statements

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Consolidated Balance Sheets

March 31, 2017 and 2018

ASSETS	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Current assets:			
Cash and cash equivalents (Note 3)	¥ 12,151	¥ 10,752	\$ 101,207
Deposits (Note 3)	3,293	3,018	28,410
Notes and accounts receivable, trade	18,913	17,730	166,889
Finished products	6,608	5,116	48,163
Work in process	2,048	2,407	22,663
Raw materials, purchased components and supplies	5,713	5,102	48,031
Deferred income taxes	721	591	5,567
Other current assets	2,419	1,873	17,638
Allowance for doubtful receivables	(432)	(717)	(6,750)
Total current assets	51,436	45,876	431,822
Fixed assets:			
Property, plant and equipment			
Buildings and structures	23,520	23,123	217,650
Less-accumulated depreciation	(13,553)	(13,191)	(124,165)
Total buildings and structures	9,966	9,931	93,484
Machinery and equipment	13,396	14,004	131,815
Less-accumulated depreciation	(9,400)	(9,784)	(92,099)
Total machinery and equipment	3,995	4,219	39,716
Land	13,018	12,503	117,690
Lease assets	1,984	2,052	19,317
Less-accumulated depreciation	(768)	(803)	(7,559)
Total lease assets	1,216	1,249	11,757
Construction in progress	237	50	478
Other fixed assets	7,881	7,676	72,260
Less-accumulated depreciation	(6,973)	(6,878)	(64,746)
Total other fixed assets	907	798	7,514
Net property, plant and equipment	29,342	28,752	270,641
Intangible assets			
Goodwill	997	835	7,867
Other intangible assets	795	1,130	10,641
Total intangible assets	1,792	1,966	18,509
Investments and other assets			
Investment securities (Note 4)	5,940	5,948	55,993
Net defined benefit asset	938	1,083	10,194
Deferred income taxes	1,127	833	7,846
Other assets	1,630	1,553	14,618
Allowance for doubtful receivables	(2)	(2)	(21)
Total investments and other assets	9,635	9,416	88,631
Total fixed assets	40,770	40,135	377,783
TOTAL	¥ 92,206	¥ 86,012	\$ 809,605

See notes to consolidated financial statements

Consolidated Balance Sheets

March 31, 2017 and 2018

LIABILITIES AND EQUITY	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Current liabilities:			
Notes and accounts payable, trade	¥ 8,942	¥ 7,235	\$ 68,109
Electronically recorded obligations - operating	3,625	4,025	37,887
Short-term debt (Note 5)	4,120	1,585	14,925
Accrued income taxes	1,541	754	7,102
Accrued bonuses allowance	1,698	1,682	15,832
Accrued bonuses allowance for directors	54	24	229
Allowance for product warranties	50	55	521
Other current liabilities	7,577	4,909	46,213
Total current liabilities	27,611	20,272	190,820
Long-term liabilities:			
Long-term debt (Note 5)	2,838	1,559	14,679
Lease obligation	758	613	5,772
Accrued retirement allowances for directors	123	138	1,299
Net defined benefit liability	2,052	2,180	20,524
Deferred income taxes	2,720	2,648	24,929
Other long-term liabilities	753	758	7,143
Total long-term liabilities	9,247	7,898	74,348
Total liabilities	36,859	28,171	265,169
Equity:			
Shareholders' equity			
Common stock:			
Authorized – 100,000,000 shares			
Issued 2018 – 49,267,180 shares and			
Issued 2017 – 49,267,180 shares	7,965	7,965	74,978
Capital surplus	8,719	8,750	82,369
Retained earnings	25,164	26,757	251,862
Treasury stock, at cost:			
461,938 shares in 2018 and			
461,518 shares in 2017	(297)	(297)	(2,801)
Total shareholders' equity	41,553	43,176	406,409
Accumulated other comprehensive income			
Unrealized gains on securities	1,567	1,586	14,934
Foreign currency translation adjustments	1,175	1,556	14,654
Remeasurements of defined benefit plans	267	390	3,678
Total accumulated other comprehensive income	3,010	3,534	33,266
Stock acquisition rights (Note 6)	405	475	4,474
Non-controlling interests	10,377	10,654	100,285
Total equity	55,347	57,840	544,435
TOTAL	¥ 92,206	¥ 86,012	\$ 809,605

See notes to consolidated financial statements

Consolidated Statements of Income

Years ended March 31, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Net sales	¥ 86,159	¥ 78,780	\$ 741,532
Cost of sales	61,972	56,800	534,642
Gross profit	24,186	21,979	206,889
Selling, general and administrative expenses (Note 7)	16,494	16,435	154,701
Operating income	7,692	5,544	52,188
Non-operating income:			
Interest income	23	21	202
Dividend income	113	140	1,322
Foreign exchange gain	-	34	321
Amortization of consolidation adjusting accounts	156	-	-
Subsidy income	63	38	366
Rent income	27	37	351
Others	112	87	81
	496	359	3,383
Non-operating expenses:			
Interest expenses	147	101	955
Loss on retirement of non-current assets	136	109	1,032
Foreign exchange loss	215	-	-
Commitment fee	10	39	370
Subsidiary stock acquisition-related cost	196	-	-
Others	57	18	176
	763	269	2,535
Ordinary income	7,426	5,634	53,037
Extraordinary gains:			
Reversal of provision for directors' retirement benefits	33	-	-
	33	-	-
Extraordinary losses:			
Impairment losses	32	-	-
Loss on sales of land	-	66	621
	32	66	621
Income before income taxes and minority interests	7,426	5,568	52,415
Income taxes			
Current	2,498	1,682	15,832
Deferred	(125)	303	2,859
	2,373	1,985	18,692
Profit	5,052	3,582	33,722
Profit attributable to non-controlling interests	1,249	915	8,621
Profit attributable to owners of parent	3,803	2,666	25,100

See notes to consolidated financial statements

Consolidated Statements of Comprehensive Income

Years ended March 31, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Profit	¥ 5,052	¥ 3,582	\$ 33,722
Other comprehensive income			
Unrealized gains on securities	397	19	179
Foreign currency translation adjustments	(525)	381	3,586
Remeasurements of defined benefit plans	127	123	1,162
Share of other comprehensive income of entities accounted for using equity method	0	(0)	(0)
	0	523	4,927
Comprehensive income	¥ 5,053	¥ 4,106	\$ 38,650
Comprehensive income attributable to owners of the parent	3,803	3,190	30,028
Comprehensive income attributable to non-controlling interests	1,249	915	8,621

Consolidated Statements of Changes in Equity

Years ended March 31, 2017 and 2018

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at March 31, 2016	¥ 6,793	¥ 6,890	¥ 22,007	¥ (358)	¥ 35,333
Issuance of new shares	1,172	1,172			2,345
Change in treasury shares of parent arising from transactions with non-controlling shareholders		656			656
Cash dividends paid			(643)		(643)
Profit attributable to owners of parent			3,803		3,803
Purchase of treasury stock				(8)	(8)
Disposal of treasury stock			(2)	69	66
Net changes of items other than shareholders' equity					
Balance at March 31, 2017	7,965	8,719	25,164	(297)	41,553
Change in treasury shares of parent arising from transactions with non-controlling shareholders		31			31
Cash dividends paid			(1,073)		(1,073)
Profit attributable to owners of parent			2,666		2,666
Purchase of treasury stock				(0)	(0)
Net changes of items other than shareholders' equity					
Balance at March 31, 2018	¥ 7,965	¥ 8,750	¥ 26,757	¥ (297)	¥ 43,176

	Thousands of U.S. dollars				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at March 31, 2017	\$ 74,978	\$ 82,075	\$ 236,868	\$ (2,798)	\$ 391,124
Change in treasury shares of parent arising from transactions with non-controlling shareholders		293			293
Cash dividends paid			(10,106)		(10,106)
Profit attributable to owners of parent			25,100		25,100
Purchase of treasury stock				(3)	(3)
Net changes of items other than shareholders' equity					
Balance at March 31, 2018	\$ 74,978	\$ 82,369	\$ 251,862	\$ (2,801)	\$ 406,409

	Millions of yen						
	Accumulated other comprehensive income				Stock Acquisition rights	Non-controlling interests	Total equity
	Unrealized gains on securities	Foreign Currency Translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at March 31, 2016	¥ 1,170	¥ 1,700	¥ 140	¥ 3,010	¥ 391	¥ 12,292	¥ 51,028
Issuance of new shares							2,345
Change in treasury shares of parent arising from transactions with non-controlling shareholders							656
Cash dividends paid							(643)
Profit attributable to owners of parent							3,803
Purchase of treasury stock							(8)
Disposal of treasury stock							66
Net changes of items other than shareholders' equity	397	(524)	127	0	14	(1,915)	(1,900)
Balance at March 31, 2017	1,567	1,175	267	3,010	405	10,377	55,347
Change in treasury shares of parent arising from transactions with non-controlling shareholders							31
Cash dividends paid							(1,073)
Profit attributable to owners of parent							2,666
Purchase of treasury stock							(0)
Net changes of items other than shareholders' equity	19	380	123	523	69	276	869
Balance at March 31, 2018	¥ 1,586	¥ 1,556	¥ 390	¥ 3,534	¥ 475	¥ 10,654	¥ 57,840

	Thousands of U.S. dollars						
	Accumulated other comprehensive income				Stock Acquisition rights	Non-controlling interests	Total equity
	Unrealized gains on securities	Foreign Currency Translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at March 31, 2017	\$ 14,755	\$ 11,068	\$ 2,515	\$ 28,339	\$ 3,821	\$ 97,679	\$ 520,964
Change in treasury shares of parent arising from transactions with non-controlling shareholders							293
Cash dividends paid							(10,106)
Profit attributable to owners of parent							25,100
Purchase of treasury stock							(3)
Net changes of items other than shareholders' equity	179	3,585	1,162	4,927	653	2,605	8,186
Balance at March 31, 2018	\$ 14,934	\$ 14,654	\$ 3,678	\$ 33,266	\$ 4,474	\$ 100,285	\$ 544,435

Consolidated Statements of Cash Flows

Years ended March 31, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 7,426	¥ 5,568	\$ 52,415
Depreciation and amortization	2,664	2,820	26,547
Impairment losses	32	-	-
Amortization of consolidation adjusting accounts	(156)	-	-
Amortization of goodwill	194	200	1,891
Increase (decrease) in allowance for doubtful receivables	207	254	2,397
Increase (decrease) in accrued bonuses allowance	180	(32)	(308)
Increase (decrease) in accrued bonuses allowance for directors	42	(31)	(300)
Increase (decrease) in allowance for product warranties	(0)	4	41
Increase (decrease) in accrued retirement allowances for directors	(69)	14	136
Increase (decrease) in net defined benefit liability	127	127	1,201
Decrease (increase) in net defined benefit asset	48	33	316
Interest and dividend income	(136)	(161)	(1,524)
Interest expenses	147	101	955
Loss on disposal of property, plant and equipment	136	109	1,032
Loss (gain) on sales of land	-	66	621
Reversal of provision for directors' retirement benefits	(33)	-	-
(Increase) decrease in notes and accounts receivable	(1,321)	1,294	12,181
(Increase) decrease in inventories	(2,193)	1,968	18,524
Increase (decrease) in notes and accounts payable	2,331	(1,426)	(13,425)
Other, net	127	(502)	(4,725)
Interest and dividend received	137	163	1,536
Interest paid	(147)	(101)	(956)
Income taxes paid	(2,377)	(2,360)	(22,222)
Net cash provided by (used in) operating activities	7,369	8,110	76,339
Cash flows from investing activities:			
Payments for property, plant and equipment	(4,063)	(3,707)	(34,902)
Proceeds from sales of property, plant and equipment	165	163	1,534
Payments for intangible assets	(326)	(627)	(5,902)
Proceeds from sales of investment securities	34	-	-
Other, net	(114)	(133)	(1,253)
Net cash provided by (used in) investing activities	(4,302)	(4,305)	(40,522)
Cash flows from financing activities:			
Increase (decrease) in short-term debt, net	(1,636)	(2,404)	(22,631)
Proceeds from long-term debt	2,837	135	1,274
Payments for long-term debt	(1,839)	(1,503)	(14,152)
Repayment of lease obligation	(50)	(66)	(623)
Cash dividends paid	(643)	(1,072)	(10,097)
Dividends paid to non-controlling interests	(611)	(598)	(5,631)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(1,890)	-	-
Payments for treasury stock	(8)	(0)	(3)
Decrease (increase) in collateral money payable for loan transactions	700	-	-
Other, net	0	-	-
Net cash provided by (used in) financing activities	(3,142)	(5,510)	(51,865)
Effect of exchange rate changes on cash and cash equivalents	(196)	(11)	(111)
Net increase (decrease) in cash and cash equivalents	(273)	(1,716)	(16,159)
Cash and cash equivalents at beginning of year (Note 3)	15,691	15,417	145,123
Cash and cash equivalents at end of year (Note 3)	¥ 15,417	¥ 13,701	\$ 128,963

See notes to consolidated financial statements

Notes to Consolidated Financial Statements

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. Foreign 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, debts and credits between consolidated companies are entirely eliminated.

(2) Foreign Currency Conversion

Monetary debts 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 or 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 non-controlling 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 maturity period, 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. Held-to-maturity securities follow the amortized cost 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) Derivative

Financial derivative transaction follows the market value method.

(7) 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.

(8) 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.

(9) 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.

(10) 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.

(11) Accrued Bonuses Allowance

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

(12) 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.

(13) 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.

(14) 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.

(15) 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 benefit formula-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 ¥106.24 = U.S.\$1, the approximate current rate on Tokyo Foreign Exchange Market at March 31, 2018, 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
	2017	2018	U.S. dollars
Cash and cash equivalents in the balance sheets	¥ 12,151	¥ 10,752	\$ 101,207
Deposits	3,293	3,018	28,410
Total	15,444	13,770	129,617
Time deposits	(26)	(69)	(653)
Cash and cash equivalents in the cash flow statements	15,417	13,701	128,963

4. Investment in Securities

Investment in securities comprise the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
As of March, 31			
Available-for-sale securities			
Acquisition cost	¥ 2,023	¥ 2,023	\$ 19,044
Fair value	4,128	4,145	39,021
Net unrealized gain	2,105	2,122	19,977

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
As of March, 31			
Investments in unconsolidated subsidiaries and affiliates	¥ 12	¥ 12	\$ 119
Investments in equity method affiliates	5	4	39
Investments in non-public companies and others	1,793	1,786	16,812

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
	2017	2018	2018
As of March, 31			
Short-term debt:			
Unsecured	¥ 2,712	¥ 342	\$ 3,223
Secured	-	-	-
Current portion of long-term debt	1,407	1,243	11,701
Net short-term debt	4,120	1,585	14,925

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
As of March, 31			2 018
Long-term debt:			
Unsecured	¥ 4,109	¥ 2,703	\$ 25,443
Secured	136	99	937
Less current portion	1,407	1,243	11,701
Net long-term debt	2,838	1,559	14,679

6. Stock Acquisition Rights

Stock acquisition rights comprise the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
As of March, 31			
Stock acquisition rights as the stock options	¥ 405	¥ 475	\$ 4,474

7. Research and Development Expenses

Research and development expenses comprise the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
As of March, 31			
Selling, general and administrative expenses	¥ 3,317	¥ 3,398	\$ 31,985

8. Segment Information

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

Measurement and control equipment:

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

FPD assembly equipment:

Sensor related equipment, Energy related equipment, FPD related equipment.

Real estate: Estate for rent

Business segments –

The FPD Assembly Equipment Business and Real Estate Business have low importance from perspectives of profitability and total assets and are therefore reported as Other Business.

Year ended March 31	Millions of yen				
	2017				
	Reportable Segments		Total	Adjustment	Consolidated
Measurement and control equipment	Other Business Activities				
Sales to customers	¥ 84,962	¥ 1,196	¥ 86,159	¥ -	¥ 86,159
Intersegment sales	26	188	215	(215)	-
Total sales	84,989	1,384	86,374	(215)	86,159
Operating income	7,913	(200)	7,712	(19)	7,692

The segment income is adjusted by fixed assets.

For the Measurement and Control Equipment Business and the Other Business Activities, an impairment loss of fixed assets of 24 million yen and 8 million yen are respectively recognized and booked as an extraordinary loss.

Year ended March 31	Millions of yen				
	2018				
	Reportable Segments		Total	Adjustment	Consolidated
Measurement and control equipment	Other Business Activities				
Sales to customers	¥ 76,917	¥ 1,862	¥ 78,780	¥ -	¥ 78,780
Intersegment sales	29	114	144	(144)	-
Total sales	76,947	1,977	78,924	(144)	78,780
Operating income	5,330	206	5,536	8	5,544

The segment income is adjusted by fixed assets.

Year ended March 31	Thousands of U.S. dollars				
	2018				
	Reportable Segments		Total	Adjustment	Consolidated
Measurement and control equipment	Other Business Activities				
Sales to customers	\$ 724,002	\$ 17,530	\$ 741,532	\$ -	\$ 741,532
Intersegment sales	279	1,081	1,360	(1,360)	-
Total sales	724,281	18,612	742,893	(1,360)	741,532
Operating income	50,171	1,941	52,113	75	52,188

Independent Auditor's Report

HARA AUDIT CORPORATION

264 Shin-Otemachi Bldg.
2-2-1, Otemachi, 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, 2017 and 2018, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the years ended March 31, 2017 and 2018, 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, 2017 and 2018, 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 29, 2018

The 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.	●
	EDMI LIMITED	●
CHINA	EDMI Shenzhen Co., Ltd	●
MALAYSIA	EDMI Electronics Sdn. Bhd.	●
UNITED KINGDOM	EDMI Europe Limited	●

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

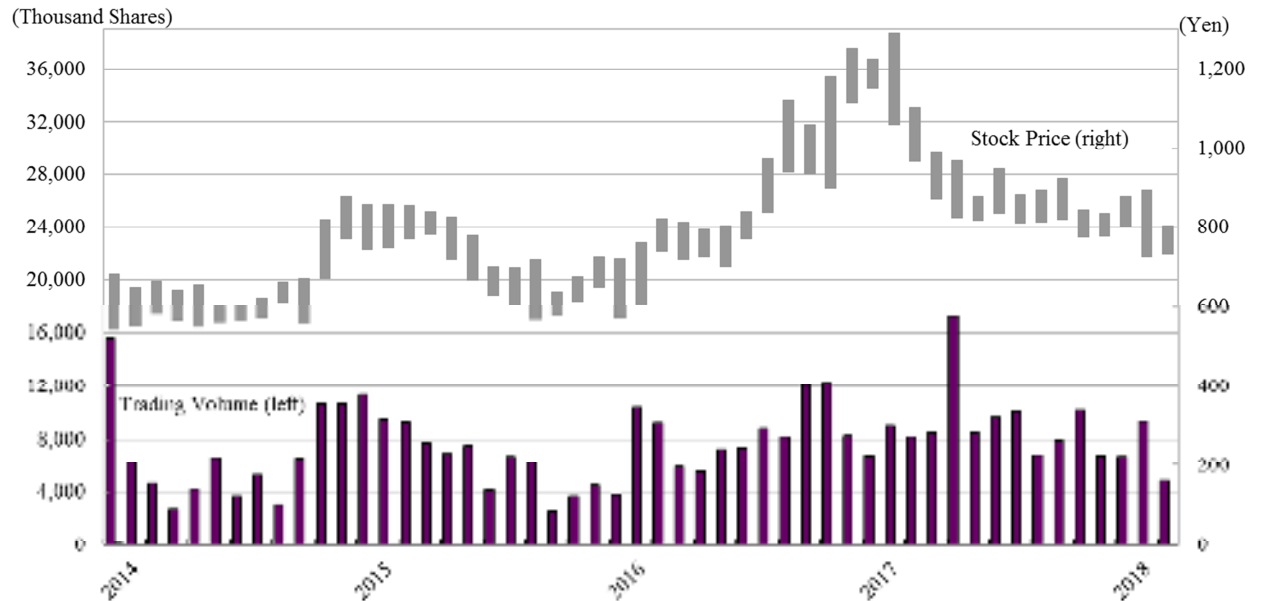
Stock Information

(As of March 31, 2018)

Common Stock

Authorized	:	100,000,000
Issued	:	49,267,180
Number of Shareholders	:	5,158

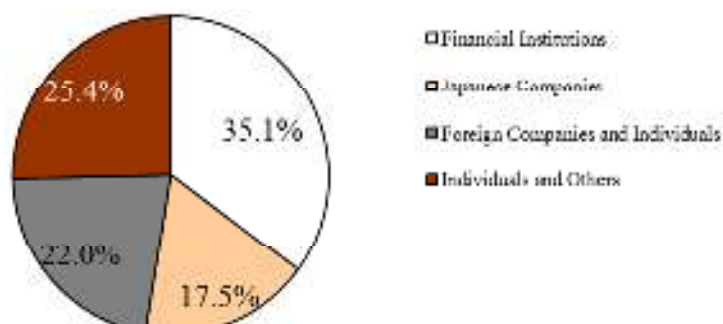
Stock Price Range and Trading Volume (Tokyo Stock Exchange)



Major Shareholders

	Number of shares	
	(Thousand shares)	(%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	4,083	8.3
Japan Trustee Services Bank, Ltd. (Trust Account)	3,989	8.1
GOVERNMENT OF NORWAY	1,948	3.9
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,552	3.1
Osaki Electric cooperation company shareholding commission	1,489	3.0

Breakdown of Shareholders



Investor Information

(As of March 31, 2018)

Management

REPRESENTATIVE DIRECTORS

Chairman and CEO

Yoshihide Watanabe

President and COO

Mitsuyasu Watanabe

Executive Vice President

Haruyuki Kawabata

DIRECTORS

Senior Managing Director

Sumio Takano

Managing Directors

Kazuo Nemoto

Ryuichi Ueno

Hiroyuki Yokoi

Directors

Kuniaki Numazaki

Satoshi Komazawa

Choichiro Hori

Kuniyuki Hoshino

Atsumi Hatakeyama

Takehiko Ota

Seiji Takashima

Nobuhiro Kasai

CORPORATE AUDITORS

Standing Auditor

Nobu Yoshino

Auditors

Toshio Yamanaka

Tatsuo Abiru

Shigehiko Yamamoto

Notes:

Mr. Seiji Takashima and Mr. Nobuhiro Kasai are outside Director.

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

¥7,965 million (US\$ 74 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

1-1, Nikko cho, Fuchu-shi,

Tokyo, Japan

Phone : 81-42-204-0303

Mailing address :

Shin-TOKYO Post Office post office box No.29

137-8081, JAPAN

Mitsubishi UFJ Trust and Banking Corporation

Transfer Agency Department

For further information, please contact:

Osaki Electric Co., Ltd.

Investor Relations Department

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