



ANNUAL REPORT
2017

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
	2013	2014	2015	2016	2017	2017
For the year:						
Net sales	¥ 61,205	¥ 65,663	¥ 77,366	¥ 75,596	¥ 86,159	\$ 767,975
Operating income	2,278	1,766	3,270	3,738	7,692	68,569
Profit attributable to owners of parent	1,472	783	2,754	1,493	3,803	33,902
At year-end:						
Total assets	82,656	87,918	89,579	87,428	92,206	821,882
Total equity	39,830	42,760	50,537	51,028	55,347	493,335
Number of employees	3,504	3,534	3,069	3,077	3,078	
Per share of common stock:						
Net income	¥ 41.30	¥ 21.96	¥ 74.30	¥ 33.46	¥ 80.65	\$ 0.71
Cash dividends	12.00	12.00	15.00	12.00	20.00	0.17
Equity	793.80	880.54	875.32	854.31	913.09	8.13

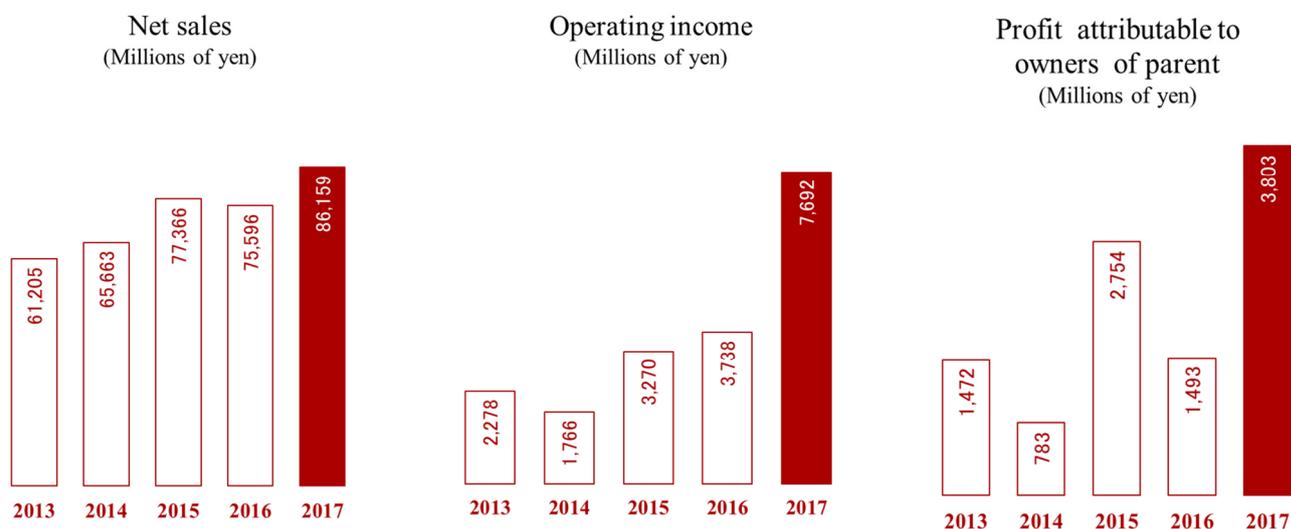
Notes : U.S.dollar amounts have been translated from yen, for convenience only, at the rate of ¥112.19=U.S.\$1
the approximate Tokyo foreign exchange market rate as of March 31, 2017

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.

Osaki Philosophy

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.

A message from the Chairman and President



TO OUR SHAREHOLDERS

Since the original company's founding in 1916, the Osaki Electric Group has remained dedicated to delivering technologies and products associated with measurement and control, and information and communications for the effective utilization of energy. In this context, our primary philosophy has aligned with the effective utilization of limited resources in furnishing comfortable living to people in society. Thus, Osaki Electric Group has consistently taken on new technical challenges, and placed efforts in its role to support the industrial activities and energy supply infrastructure of Japan.

Energy infrastructure today, however, has reached a major inflection point. Deregulation on several fronts has overturned our traditional notions, and the evolution in information and communications is transforming our social fabric. Osaki Electric Group has consequently gripped the wave of globalization in its bid to ride out this period of change and to maximize enterprise value.

As the smart grid gains momentum, we shall fulfill the demand for real-time energy metering, and evince leadership as a dedicated manufacturer of measurement and control equipment that will support next-generation infrastructure. The Group eyes new market development through globalization of its supply organization, and intends to become a major global manufacturer in its domain. As the "Global Energy Solution Leader," everyone at Osaki Electric Group is committed to the creation of new value that can help achieve a world of plentiful comfort.

In closing, we extend our deepest gratitude to your steadfast patronage and ask for your continued support in our many endeavors ahead.

A handwritten signature in black ink, appearing to read 'M. Watanabe'.

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

A handwritten signature in black ink, appearing to read 'Y. Watanabe'.

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

Management Policy

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 in the sensor device market, as well as energy and lighting-related equipment markets that represent a promising growth area in which improved customer satisfaction is the aim.

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.

In particular, the full-fledged market introduction of smart meters has altered the commercial profit structure as of late, and led to a vast improvement of 9.2% for this target in the results of the reported year.

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) We have received high levels of orders for smart meters, now heading into their full introduction to markets. In response, a firm business foundation will be created to establish a supply organization allowing for cost reductions that lead to enhanced profits. Efforts to secure a staunch position as the 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.

- (3) The FPD Assembly Equipment Business intends to reinforce and expand 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

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 under report, the year-end dividend shall be 12 yen per share, and thus 20 yen per share (of which 8 yen is the interim dividend) for the full year with 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 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 Oct. 31, 2016	374	8.00
Annual general shareholders meeting resolution of June 29, 2017	585	12.00

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Present status of Business

1. Business Performance

(1) Overview of Consolidated Fiscal year

The economy of Japan during the consolidated fiscal year under report saw some delays to the improving business climate amidst continuing improvement in the employment and income arenas. The effects from several pieces of policy contributed to a continuing pace of gentle recovery. Influenced by US financial policy, the economic outlook for China and other emerging market nations in Asia, and uncertainty pertaining to government policy, the business climate of Japan retains the risk of being dragged downward. Nonetheless, a gentle recovering trend to the business climate is expected to continue.

With respect to the Measurement and Control Equipment Business, the management environment of the Osaki Electric Group sees advancement in electric power reforms, such as the complete liberalization in Japan for retailing electric power and movements eyeing the restructuring of the electric power industry. On the other hand, opacity remains, such as the continuing delays to restarting operations at nuclear power plants. Meanwhile, the smart meter has entered its phase of full-fledged market introduction, and demand has stepped up tremendously around the Tokyo Region. In the global market of electricity meters, smart meter introduction plans have experienced delays in emerging markets to some extent, but demand for smart meters in Oceania continues to grow. With respect to the FPD Assembly Equipment Business, although principal clientele in the digital home electronics industry have trended toward recovery with respect to capital expenditures, overall capital equipment seemed to remain excessive, which suppressed conditions for fresh 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.

Our successful electricity meter business in Japan and abroad led to an increase in consolidated net sales by 14.0% compared to the prior year to 86,159 million yen.

With respect to income, the increase in net sales contributed to an increase over the prior year of 3,954 million yen for operating income of 7,692 million yen, while ordinary income grew by 3,422 million yen over the prior year to 7,426 million yen. Consequently, the profit attributable to owners of parent increased over the prior year by 2,309 million yen to 3,803 million yen.

(2) Business Segments

(A) Measurement and Control Equipment Business

In addition to the favorable sales growth of smart meters distributed to the power companies in Japan, net sales rose in Europe and Oceania for our electricity meter business overseas. Compared to the prior year, revenues and income increased in Japan and abroad. Consequently, net sales rose 15.7% over the prior year to 84,989 million yen, and operating income increased by 4,149 million yen over the prior year to 7,913 million yen.

(B) FPD Assembly Equipment Business

This segment experienced a decrease in net sales for sensor device- and high-functional device-related equipment, energy- and lighting-related equipment, and FPD assembly equipment. As a result, net sales declined 48.8% from the prior year to 932 million yen. Operating losses rose by 128 million yen over the prior year to 343 million yen.

(C) Real estate business

Net sales for this segment decreased by 3.1% over the prior year to 452 million yen, and operating income decreased by 23.2% to 142 million yen.

Segment net sales reflect internal inter-segment sales or transfers amounting to 215 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 is in process, and expects 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. Energy management-related products and services continue in an expansion trend for demand, nevertheless. While sustaining the impact of some delays to the UK Government's smart meter rollout plans, OUI (OSAKI United International, Pte. Ltd.) driving the global business intends to continue research and development investments associated with these plans for the future.

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 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 84,000 million yen in net sales, 6,700 million yen in operating income, 6,700 million yen in ordinary income, and 3,300 million yen in profit attributable to owners of parent.

Consolidated Business Performance Outlook

Net sales	:	84,000 million yen (2.5% decrease over prior year)
Operating income	:	6,700 million yen (12.9% decrease over prior year)
Ordinary income	:	6,700 million yen (9.8% decrease over prior year)
Profit attributable to owners of parent	:	3,300 million yen (13.2% decrease 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. Overview of Financial Condition for This Fiscal Year

With respect to total assets for the year ended, although cash and equivalents decreased by 1,036 million yen, notes and accounts receivable, trade, increased by 1,049 million yen, inventories increased by 1,891 million yen, plant, property and equipment increased by 2,441 million yen, and investments in securities increased by 755 million yen. Thus, total assets increased by 4,778 million yen over the prior year's end to 92,206 million yen.

Among liabilities, short-term debt and long-term bank loans decreased by 983 million yen and bonds decreased by 2,345 million yen, while notes and accounts payable, trade together with electronically recorded obligations-operating increased by 2,174 million yen, and other current liabilities increased by 1,200 million yen. Thus, total liabilities increased by 460 million yen over the prior year's end to 36,859 million yen.

Though sustaining a decrease by 1,915 million yen in holdings of non-controlling interests, total equity benefited from increases in common stock of 1,172 million yen, capital surplus of 1,828 million yen, and retained earnings of 3,157 million yen, and thus increased by 4,318 million yen over the prior year's end to 55,347 million yen.

The equity ratio rose 4.5 points over the prior year's end to 48.3%.

	Total assets (million yen)	Total liabilities (million yen)	Total equity (million yen)	Equity ratio
Year ended March 2017	92,206	36,859	55,347	48.3%
Year ended March 2016	87,428	36,399	51,028	43.9%
Difference	4,778	460	4,318	4.5 points

3. Cash Flows

Balances of cash and cash equivalents for the consolidated fiscal year under report totaled 15,417 million yen with a decrease of 273 million yen over the prior year's end.

	Year Ended March 2016 (million yen)	Year Ended March 2017 (million yen)	Difference (million yen)
Cash flows from operating activities	6,373	7,369	995
Cash flows from investing activities	(4,332)	(4,302)	30
Cash flows from financing activities	(3,096)	(3,142)	(46)
Cash and cash equivalents at end of year	15,691	15,417	(273)

(1) Cash flows from operating activities

With respect to cash flows from operating activities, income before taxes and minority interests of 7,426 million yen, depreciation and amortization of 2,664 million yen, the increase by 1,321 million of notes and accounts receivable, and the increase by 2,193 million yen of inventories were factors for net cash acquired of 7,369 million yen.

(2) Cash flows from investing activities

With respect to cash flows from investing activities, payments of 4,063 million yen for acquisitions of property, plant and equipment and the like resulted in net cash used of 4,302 million yen.

(3) Cash flows from financing activities

With respect to cash flows from financing activities, cash dividends paid of 1,254 million yen including non-controlling interests, and payments for acquisition of shares of subsidiaries without change in consolidation basis of 1,890 million yen mainly accounted for net cash used of 3,142 million yen.

4. Business Environment and Responses to Business Challenges

(A) Measurement and Control Equipment Business

The introduction of general competitive bidding by the electric power companies, our principal trade customers for the power company product portfolio, has resulted in intensified competition among supplying manufacturers, while the significant 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 smart meter, the next-generation electricity meter, has entered a full-fledged introduction phase. With the additional impact of accelerated introductions in certain regions, the demand for smart meters, therefore, is forecast to trend at high levels for some time. 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. Although we have acquired a large market share for smart meters comparable to that achieved previously for conventional meters, cost reductions to match selling prices that declined through competition among manufacturers are being promoted. The impact of accelerated introductions presents a concern toward decreasing demand in a few years, but we are engaged in the creation of new revenue streams, such as energy management. In our international business operations, we are readying our production and supply organization for smart meters toward reinforcing developments in the UK alongside the communication hub that has started to ship. Efforts include further cost reductions to increase profit. Business expansion is under review for Continental Europe, where the demand for smart meters is expected to increase in the near future.

(B) FPD Assembly Equipment Business

This business segment 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, promote increases in orders received by securing new clientele, and make sincere efforts in restructuring this business.

(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 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 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 sum of net sales to power companies and their associated companies accounts for a majority of total net sales. 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. 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 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 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

There are no particular matters to note.

7. Research and Development

The corporate 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 corporate group for the consolidated fiscal year under report totaled 3,317 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 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 studies of 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 corporate 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 supports the energy solutions business through BEMS, which targets mid- and small-sized buildings and commercial facilities, and HEMS, which targets residential housing. We are engaged in improving and deploying demand management services, the development of demand control systems for general customers and Electricity Safety Associations nationwide, smart meter systems and in-home energy management units for condominiums that apply measurement technologies of smart meters and various communication technologies, and product development for new markets by applying these technologies.

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 3,313 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 3 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 5,187 million yen for the consolidated fiscal year under report.

The Measurement and Control Equipment Business invested 5,136 million yen mainly in facilities associated with electricity meters, the FPD Assembly Equipment Business invested 12 million yen, and the Real Estate Business invested 39 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. The Company has 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.

Next, 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.

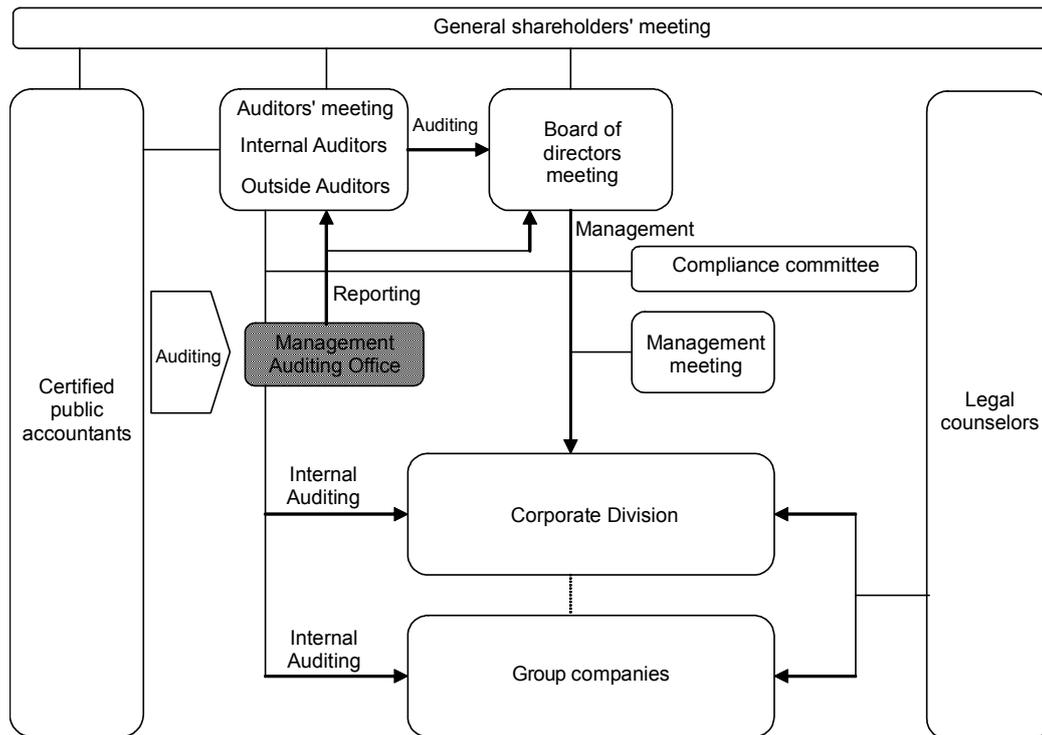
In accordance with the “Statutes Partially Revising the Companies Law” (2014 Statute No. 90) instituted on May 1, 2015, the Company executed agreements, based on Article 427, Section 1 with the non-executive directors and auditors that limit liability for compensation of damages provided in Article 423, 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 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 Electric group companies to instill the purposes of compliance. The committee also issues the Osaki Electric 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



[Respective Divisions]

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 Osaki Electric group companies and issues the Osaki Electric Group Compliance Handbook to promote thorough common knowledge and compliance 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 Electric 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 according to plan, 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, Osaki Electric 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.
- * Osaki Electric 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 Electric 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 Electric 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 Electric 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 Electric 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 Electric 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 Osaki Electric 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 corporate 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 Osaki Electric Group 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 statutory auditors of the Company without delay.
- * Osaki Electric 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

Osaki Electric Co., Ltd. and Consolidated Subsidiaries

March 31, 2016 and 2017

ASSETS	Millions of yen		Thousands of U.S.dollars
	2016	2017	2017
Current assets:			
Cash and cash equivalents (Note 3)	¥ 13,188	¥ 12,151	\$ 108,309
Deposits (Note 3)	3,228	3,293	29,352
Notes and accounts receivable, trade	17,864	18,913	168,588
Finished products	5,000	6,608	58,904
Work in process	2,294	2,048	18,256
Raw materials, purchased components and supplies	5,184	5,713	50,929
Deferred income taxes	668	721	6,433
Other current assets	2,737	2,419	21,561
Allowance for doubtful receivables	(227)	(432)	(3,857)
Total current assets	49,939	51,436	458,479
Fixed assets:			
Property, plant and equipment			
Buildings and structures	22,203	23,520	209,644
Less-accumulated depreciation	(13,669)	(13,553)	(120,811)
Total buildings and structures	8,534	9,966	88,833
Machinery and equipment	13,198	13,396	119,409
Less-accumulated depreciation	(10,140)	(9,400)	(83,792)
Total machinery and equipment	3,057	3,995	35,617
Land	12,776	13,018	116,043
Lease assets	2,004	1,984	17,686
Less-accumulated depreciation	(727)	(768)	(6,846)
Total lease assets	1,276	1,216	10,840
Construction in progress	574	237	2,116
Other fixed assets	7,713	7,881	70,250
Less-accumulated depreciation	(7,032)	(6,973)	(62,159)
Total other fixed assets	681	907	8,090
Net property, plant and equipment	26,901	29,342	261,542
Intangible assets			
Goodwill	1,267	997	8,887
Other intangible assets	804	795	7,090
Total intangible assets	2,071	1,792	15,978
Investments and other assets			
Investment securities (Note 4)	5,185	5,940	52,951
Net defined benefit asset	803	938	8,366
Deferred income taxes	1,028	1,127	10,045
Other assets	1,505	1,630	14,535
Allowance for doubtful receivables	(6)	(2)	(18)
Total investments and other assets	8,516	9,635	85,882
Total fixed assets	37,489	40,770	363,402
TOTAL	¥ 87,428	¥ 92,206	\$ 821,882

See notes to consolidated financial statements

Consolidated Balance Sheets

Osaki Electric Co., Ltd. and Consolidated Subsidiaries

March 31, 2016 and 2017

LIABILITIES AND EQUITY	Millions of yen		Thousands of U.S.dollars
	2016	2017	2017
Current liabilities:			
Notes and accounts payable, trade	¥ 9,842	¥ 8,942	\$ 79,710
Electronically recorded obligations - operating	550	3,625	32,316
Short-term debt (Note 5)	6,708	4,120	36,727
Accrued income taxes	1,395	1,541	13,742
Accrued bonuses allowance	1,529	1,698	15,137
Accrued bonuses allowance for directors	11	54	489
Allowance for product warranties	50	50	453
Other current liabilities	6,376	7,577	67,541
Total current liabilities	26,465	27,611	246,117
Long-term liabilities:			
Bonds (Note 6)	2,345	-	-
Long-term debt (Note 5)	1,233	2,838	25,297
Lease obligation	713	758	6,762
Accrued retirement allowances for directors	226	123	1,101
Net defined benefit liability	1,925	2,052	18,298
Consolidation adjusting accounts	156	-	-
Deferred income taxes	2,531	2,720	24,251
Other long-term liabilities	802	753	6,717
Total long-term liabilities	9,933	9,247	82,429
Total liabilities	36,399	36,859	328,546
Contingent liabilities (Note 7)			
Equity:			
Shareholders' equity			
Common stock:			
Authorized – 100,000,000 shares			
Issued 2017 – 49,267,180 shares and			
Issued 2016 – 45,444,234 shares	6,793	7,965	71,002
Capital surplus	6,890	8,719	77,722
Retained earnings	22,007	25,164	224,306
Treasury stock, at cost:			
461,518 shares in 2017 and			
561,071 shares in 2016	(358)	(297)	(2,649)
Total shareholders' equity	35,333	41,553	370,381
Accumulated other comprehensive income			
Unrealized gains on securities	1,170	1,567	13,972
Foreign currency translation adjustments	1,700	1,175	10,481
Remeasurements of defined benefit plans	140	267	2,382
Total accumulated other comprehensive income	3,010	3,010	26,836
Stock acquisition rights (Note 8)	391	405	3,618
Non-controlling interests	12,292	10,377	92,499
Total equity	51,028	55,347	493,335
TOTAL	¥ 87,428	¥ 92,206	\$ 821,882

See notes to consolidated financial statements

Consolidated Statements of IncomeOsaki Electric Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2016 and 2017

	Millions of yen		Thousands of U.S.dollars
	2016	2017	2017
Net sales	¥ 75,596	¥ 86,159	\$ 767,975
Cost of sales	55,346	61,972	552,386
Gross profit	20,249	24,186	215,588
Selling, general and administrative expenses (Note 9)	16,511	16,494	147,019
Operating income	3,738	7,692	68,569
Non-operating income:			
Interest income	39	23	209
Dividend income	102	113	1,008
Amortization of consolidation adjusting accounts	156	156	1,391
Subsidy income	49	63	569
Others	192	140	1,249
	540	496	4,427
Non-operating expenses:			
Interest expenses	145	147	1,311
Loss on retirement of non-current assets	64	136	1,216
Foreign exchange loss	20	215	1,921
Commitment fee	10	10	89
Subsidiary stock acquisition-related cost	-	196	1,754
Others	33	57	512
	274	763	6,805
Ordinary income	4,003	7,426	66,192
Extraordinary gains:			
Gain on sales of land	55	-	-
Gain on sales of investment securities	111	-	-
Reversal of provision for directors' retirement benefits	-	33	296
	166	33	296
Extraordinary losses:			
Impairment losses	14	32	293
Special retirement expenses	10	-	-
	24	32	293
Income before income taxes and minority interests	4,145	7,426	66,195
Income taxes			
Current	1,825	2,498	22,272
Deferred	(375)	(125)	(1,114)
	1,450	2,373	21,157
Profit	2,695	5,052	45,037
Profit attributable to non-controlling interests	1,201	1,249	11,135
Profit attributable to owners of parent	1,493	3,803	33,902

See notes to consolidated financial statements

Consolidated Statements of Comprehensive IncomeOsaki Electric Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2016 and 2017

	Millions of yen		Thousands of U.S.dollars
	2016	2017	2017
Profit	¥ 2,695	¥ 5,052	\$ 45,037
Other comprehensive income			
Unrealized gains on securities	(278)	397	3,543
Foreign currency translation adjustments	(1,088)	(525)	(4,681)
Remeasurements of defined benefit plans	(171)	127	1,134
Share of other comprehensive income of entities accounted for using equity method	0	0	7
	(1,538)	0	3
Comprehensive income	¥ 1,157	¥ 5,053	\$ 45,040
Comprehensive income attributable to owners of the parent	(148)	3,803	33,905
Comprehensive income attributable to non-controlling interests	1,305	1,249	11,135

Consolidated Statements of Changes in Equity

Osaki Electric Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2016 and 2017

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at March 31, 2015	¥ 6,623	¥ 6,705	¥ 21,180	¥ (354)	¥ 34,154
Issuance of new shares	170	170			340
Change in treasury shares of parent arising from transactions with non-controlling shareholders		15			15
Cash dividends paid			(666)		(666)
Profit attributable to owners of parent			1,493		1,493
Purchase of treasury stock				(3)	(3)
Disposal of treasury stock					
Net changes of items other than 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

	Thousands of U.S.dollars				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at March 31, 2016	\$ 60,551	\$ 61,421	\$ 196,162	\$ (3,191)	\$ 314,943
Issuance of new shares	10,451	10,451			20,902
Change in treasury shares of parent arising from transactions with non-controlling shareholders		5,850			5,850
Cash dividends paid			(5,734)		(5,734)
Profit attributable to owners of parent			33,902		33,902
Purchase of treasury stock				(75)	(75)
Disposal of treasury stock			(23)	617	593
Net changes of items other than shareholders' equity					
Balance at March 31, 2017	\$ 71,002	\$ 77,722	\$ 224,306	\$ (2,649)	\$ 370,381

	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, 2015	¥ 1,447	¥ 2,892	¥ 311	¥ 4,652	¥ 327	¥ 11,403	¥ 50,537
Issuance of new shares							340
Change in treasury shares of parent arising from transactions with non-controlling shareholders							15
Cash dividends paid							(666)
Profit attributable to owners of parent							1,493
Purchase of treasury stock							(3)
Disposal of treasury stock							
Net changes of items other than shareholders' equity	(277)	(1,192)	(171)	(1,641)	64	889	(687)
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

	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, 2016	\$ 10,429	\$ 15,155	\$ 1,248	\$ 26,832	\$ 3,493	\$ 109,572	\$ 454,841
Issuance of new shares							20,902
Change in treasury shares of parent arising from transactions with non-controlling shareholders							5,850
Cash dividends paid							(5,734)
Profit attributable to owners of parent							33,902
Purchase of treasury stock							(75)
Disposal of treasury stock							593
Net changes of items other than shareholders' equity	3,543	(4,673)	1,134	3	125	(17,072)	(16,943)
Balance at March 31, 2017	\$ 13,972	\$ 10,481	\$ 2,382	\$ 26,836	\$ 3,618	\$ 92,499	\$ 493,335

See notes to consolidated financial statements

Consolidated Statements of Cash Flows

Osaki Electric Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2016 and 2017

	Millions of yen		Thousands of
	2016	2017	U.S.dollars 2017
Cash flows from operating activities :			
Income before income taxes and minority interests	¥ 4,145	¥ 7,426	\$ 66,195
Adjustments to reconcile net income to net cash provided by operating activities -			
Depreciation and amortization	2,214	2,664	23,746
Impairment losses	14	32	293
Amortization of consolidation adjusting accounts	(156)	(156)	(1,391)
Amortization of goodwill	217	194	1,736
Increase (decrease) in allowance for doubtful receivables	73	207	1,852
Increase (decrease) in accrued bonuses allowance	0	180	1,606
Increase (decrease) in accrued bonuses allowance for directors	(85)	42	380
Increase (decrease) in allowance for product warranties	22	(0)	(0)
Increase (decrease) in accrued retirement allowances for directors	3	(69)	(623)
Increase (decrease) in net defined benefit liability	143	127	1,139
Decrease (increase) in net defined benefit asset	(23)	48	430
Interest and dividend income	(141)	(136)	(1,217)
Interest expenses	145	147	1,311
Loss on disposal of property, plant and equipment	64	136	1,216
Reversal of provision for directors' retirement benefits	-	(33)	(296)
(Increase) decrease in notes and accounts receivable	(336)	(1,321)	(11,780)
(Increase) decrease in inventories	947	(2,193)	(19,551)
Increase (decrease) in notes and accounts payable	545	2,331	20,781
Other, net	302	127	1,136
Interest and dividend received	143	137	1,224
Interest paid	(146)	(147)	(1,313)
Income taxes paid	(1,721)	(2,377)	(21,191)
Net cash provided by (used in) operating activities	6,373	7,369	65,683
Cash flows from investing activities :			
Payments for property, plant and equipment	(4,141)	(4,063)	(36,216)
Proceeds from sales of property, plant and equipment	492	165	1,478
Payments for intangible assets	(346)	(326)	(2,905)
Payments for investment securities	(615)	-	-
Proceeds from sales of investment securities	298	34	306
Other, net	(19)	(114)	(1,016)
Net cash provided by (used in) investing activities	(4,332)	(4,302)	(38,353)
Cash flows from financing activities :			
Increase (decrease) in short-term debt, net	741	(1,636)	(14,586)
Proceeds from long-term debt	440	2,837	25,295
Payments for long-term debt	(3,154)	(1,839)	(16,397)
Repayment of lease obligation	(57)	(50)	(453)
Cash dividends paid	(666)	(643)	(5,731)
Dividends paid to non-controlling interests	(316)	(611)	(5,452)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(79)	(1,890)	(16,851)
Payments for treasury stock	(3)	(8)	(76)
Decrease (increase) in collateral money payable for loan transactions	-	700	6,239
Other, net	-	0	0
Net cash provided by (used in) financing activities	(3,096)	(3,142)	(28,013)
Effect of exchange rate changes on cash and cash equivalents	(540)	(196)	(1,752)
Net increase (decrease) in cash and cash equivalents	(1,596)	(273)	(2,435)
Cash and cash equivalents at beginning of year (Note 3)	17,287	15,691	139,862
Cash and cash equivalents at end of year (Note 3)	¥ 15,691	¥ 15,417	\$137,427

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. 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 follow 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 ¥112.19 = U.S.\$1, the approximate current rate on Tokyo Foreign Exchange Market at March 31, 2017, 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
	2016	2017	U.S.dollars 2017
Cash and cash equivalents in the balance sheets	¥ 13,188	¥ 12,151	\$ 108,309
Deposits	3,228	3,293	29,352
Total	16,416	15,444	137,662
Time deposits	(25)	(26)	(235)
Collateral money payable for loan transactions	(700)	-	-
Cash and cash equivalents in the cash flow statements	15,691	15,417	137,427

4. Investment in Securities

Investment in securities comprise the following:

As of March 31	Millions of yen		Thousands of
	2016	2017	U.S.dollars 2017
Available-for-sale securities			
Acquisition cost	¥ 2,053	¥ 2,023	\$ 18,034
Fair value	3,671	4,128	36,798
Net unrealized gain	1,617	2,105	18,764

	Millions of yen		Thousands of U.S.dollars
	2016	2017	2017
As of March 31			
Investments in unconsolidated subsidiaries and affiliates	¥ 12	¥ 12	\$ 113
Investments in equity method affiliates	7	5	51
Investments in non-public companies and others	1,494	1,793	15,988

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
	2016	2017	2017
As of March 31			
Short-term debt:			
Unsecured	¥ 4,640	¥ 2,712	\$ 24,178
Secured	6	-	-
Current portion of long-term debt	2,061	1,407	12,548
Net short-term debt	6,708	4,120	36,727

	Millions of yen		Thousands of U.S.dollars
	2016	2017	2017
As of March 31			
Long-term debt:			
Unsecured	¥ 3,090	¥ 4,109	\$ 36,632
Secured	204	136	1,214
Less current portion	2,061	1,407	12,548
Net long-term debt	1,233	2,838	25,297

6. Bonds

Bonds comprise the following:

	Millions of yen		Thousands of U.S.dollars
	2016	2017	2017
As of March 31			
Unsecured zero coupon convertible bonds in yen, due July 2017	¥ 2,345	¥ -	\$ -

7. Contingent Liabilities

Contingent liabilities comprise the following:

	Millions of yen		Thousands of U.S.dollars
	2016	2017	2017
As of March 31			
Debt assumption	¥ 5,000	¥ -	\$ -

8. Stock Acquisition Rights

Stock acquisition rights comprise the following:

	Millions of yen		Thousands of U.S.dollars
	2016	2017	2017
As of March 31			
Stock acquisition rights as the stock options	¥ 391	¥ 405	\$ 3,618

9. Research and Development Expenses

Research and development expenses comprise the following:

As of March 31	Millions of yen		Thousands of U.S.dollars
	2016	2017	2017
Selling, general and administrative expenses	¥ 3,422	¥ 3,317	\$ 29,566

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					
	2016					
	Measurement and control equipments	FPD assembly equipments	Real estate	Total	Adjustment	Consolidated
Sales to customers	¥ 73,420	¥ 1,820	¥ 354	¥ 75,596	¥ -	¥ 75,596
Intersegment sales	30	0	112	142	(142)	-
Total sales	73,451	1,820	466	75,739	(142)	75,596
Operating income	3,763	(214)	184	3,734	3	3,738

The segment income is adjusted by fixed assets.

For the FPD Assembly Equipment Business, an impairment loss of fixed assets of 14 million yen is recognized and booked as an extraordinary loss.

Year ended March 31	Millions of yen					
	2017					
	Measurement and control equipments	FPD assembly equipments	Real estate	Total	Adjustment	Consolidated
Sales to customers	¥ 84,962	¥ 856	¥ 339	¥ 86,159	¥ -	¥ 86,159
Intersegment sales	26	76	112	215	(215)	-
Total sales	84,989	932	452	86,374	(215)	86,159
Operating income	7,913	(343)	142	7,712	(19)	7,692

The segment income is adjusted by fixed assets.

For the Measurement and Control Equipment Business and the FPD Assembly Equipment Business, 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	Thousands of U.S.dollars					
	2017					
	Measurement and control equipments	FPD assembly equipments	Real estate	Total	Adjustment	Consolidated
Sales to customers	\$ 757,313	\$ 7,633	\$ 3,028	\$ 767,975	\$ -	\$ 767,975
Intersegment sales	237	677	1,001	1,916	(1,916)	-
Total sales	757,550	8,311	4,029	769,891	(1,916)	767,975
Operating income	70,536	(3,057)	1,266	68,745	(175)	68,569

Independent Auditor's Report

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, 2016 and 2017, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the years ended March 31, 2016 and 2017, 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, 2016 and 2017, 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 30, 2017

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

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

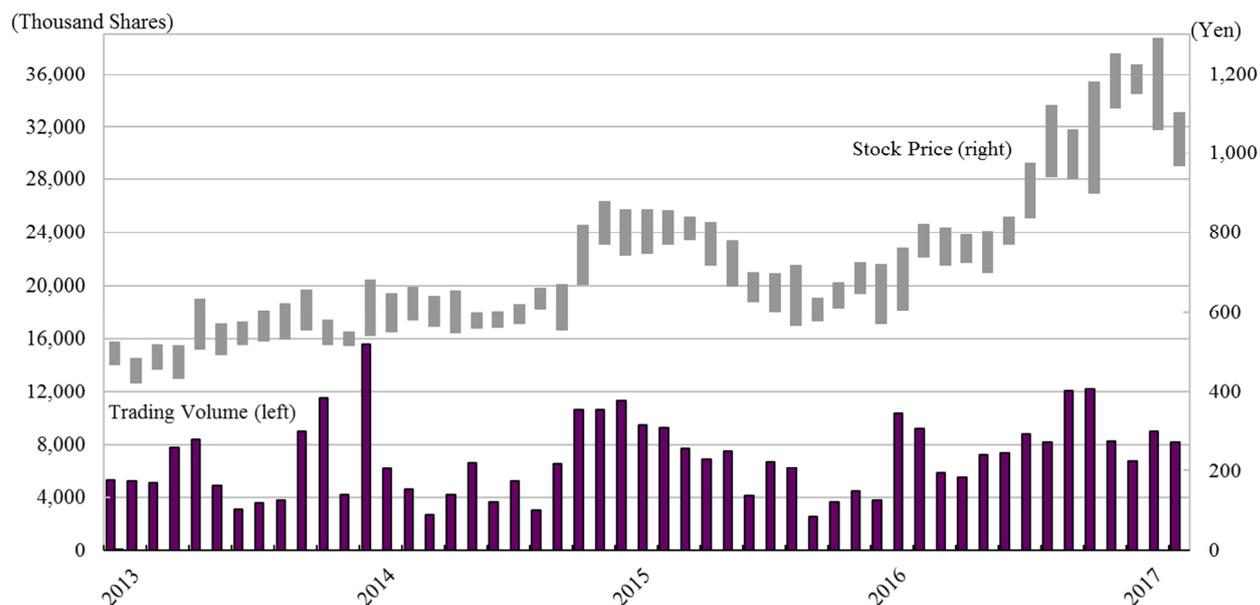
Stock Information

(As of March 31, 2017)

Common Stock

Authorized	:	100,000,000
Issued	:	49,267,180
Number of Shareholders	:	3,453

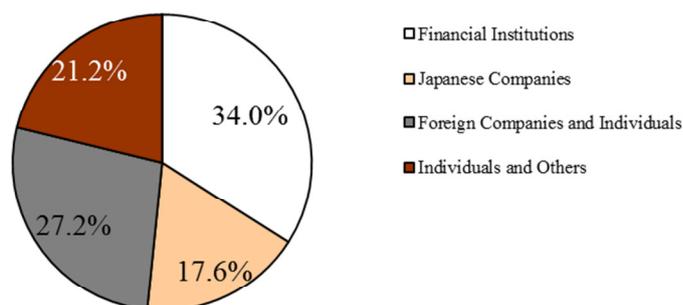
Stock Price Range and Trading Volume (Tokyo Stock Exchange)



Major Shareholders

	Number of shares	
	(Thousand shares)	(%)
Japan Trustee Services Bank, Ltd. (Trust Account)	4,238	8.6
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,406	4.9
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,552	3.1
Japan Trustee Services Bank, Ltd. (Trust Account 9)	1,515	3.1
Osaki Electric cooperation company share holding commission	1,501	3.0

Breakdown of Shareholders



Investor Information

(As of March 31, 2017)

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 is 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\$ 71 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 : 81-3-6701-5000

For further information, please contact:

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