ANNUAL REPORT 2017

MiSUMi

MISUMI Group Inc.

It's all about TIME

PROFILE

Since the company was founded in 1963, MISUMI Group has been working 'behind the scenes' to support manufacturing activities. Initially a trading company, in 2005 MISUMI transformed itself into a manufacturer and has since evolved into a company with a unique business model encompassing both manufacturing and distribution operations.

Our manufacturing operations comprise the FA (Factory Automation) Business and Die Components Business. We are capable of shipping within a standard 2 days in Japan even high precision mechanical components with dimensions measured by the micron.

Our VONA (Variation & One-stop by New Alliance) Business sells third-party brands alongside MISUMI products under a new distribution business model. In addition to production facilities related components, we have expanded into production auxiliary materials and maintenance, repair and operations (MRO) expendable supplies.

Together our manufacturing and distribution businesses offer 17.5 million products (as of March 31st 2017 in Japan) in 80 sextillion product variations to more than 240,000 customers worldwide. In this way, we support manufacturing operations globally by delivering the value of high quality (Quality), low cost (Cost) and reliably quick delivery times (Time).

CONTENTS

Forward-looking statement

This annual report contains forward-looking statements regarding The MISUMI Group's business performance estimates and business environment forecasts. All forward-looking statements are based on judgments derived from information available to The MISUMI Group at the time of publication, and these forecasts include uncertainties. Certain risks and uncertainties could cause MISUMI's actual results to differ materially from any projections presented in this report. Please be advised that our actual business performance and the future business environment may differ substantially from the forecasts indicated in this document.

Ten-Year Summary of Financial Data (Consolidated)

MISUMI Group Inc. and consolidated subsidiaries
Years ended March 31, 2017, 2016, 2015, 2014, 2013, 2012, 2011, 2010, 2009, and 2008(millions of yen)

For the year:	2008	2009	2010	2011	2012	2013	2014	2015	2016	March31,2017
Net sales	126,665	110,041	89,180	121,203	130,213	134,844	173,904	208,563	240,140	**259,015**
Factory Automation (FA)Business[5,6]	69,205	62,030	51,445	74,831	80,724	84,299	98,843			
Die Components Business[5,6]	34,652	28,139	23,007	26,622	27,686	37,020	56,310			
Electronics Business[5,6]	12,313	10,262	8,081	11,376	12,401	12,381	13,801			
Other Business[5,6]	6,684	5,555	4,353	5,798	6,415	6,747	7,654			
Adjustments[5,6]	3,811	4,055	2,294	2,576	2,987	(5,603)	(2,704)			
FA Business[6]							82,377	99,094	109,654	**84,669**
Die Components Business[6]							56,309	64,737	69,732	**69,797**
VONA Business[6]							37,921	48,249	60,474	**104,548**
Adjustments[6]							(2,703)	(3,517)	280	**-**
Operating income	16,317	11,017	8,408	15,563	16,646	16,809	18,989	23,759	25,691	**27,127**
Earnings before amortization	16,317	11,017	8,408	15,563	16,646	17,109	21,093	25,999	28,229	**29,421**
Income before income taxes (and minority interests)	16,296	9,640	7,778	15,409	17,022	15,890	18,964	22,943	25,004	**26,071**
Net income	9,698	4,687	3,886	9,007	9,414	9,881	11,679	14,292	16,908	**18,387**
At year-end:										
Total assets	92,596	86,080	92,941	107,552	115,721	136,303	163,202	184,785	194,186	**212,041**
Total equity[1]	71,302	71,696	75,667	83,815	90,824	103,014	115,966	132,138	141,463	**154,530**
Interest-bearing debt	2,164	1,862	1,200	900	1,000	1,000	900	-	-	**-**
CAPEX and depreciation & amortization:										
Capital expenditures (CAPEX)	4,898	3,493	3,863	5,362	4,231	3,451	6,989	8,487	9,126	**7,219**
Depreciation & Amortization	2,614	3,192	2,664	2,453	3,521	3,560	6,249	7,250	8,113	**7,439**
Major indicators:										
Return on equity[3] (%)	14.4	6.6	5.3	11.3	10.8	10.2	10.7	11.5	12.4	**12.4**
Return on assets[3] (%)	18.4	10.8	8.7	15.4	15.2	12.6	12.7	13.2	13.2	**12.8**
Current ratio (%)	351.5	529.2	463.6	398.7	408.4	349.5	397.5	429.2	445.8	**430.3**
Interest coverage ratio[4] (times)	815.3	499.1	362.1	854.1	1,150.6	2,095.6	1,691.2	1,470.3	5,179.8	**4,972.6**
Per share data:										
Net income per share[2] (yen)	36.57	17.63	14.61	33.72	35.05	36.76	42.94	52.28	61.65	**66.94**
Cash dividends per share[2] (yen)	7.67	4.33	3.33	6.73	7.73	9.15	10.72	13.05	15.42	**16.71**
Equity per share[2] (yen)	268.44	269.63	284.57	312.27	339.04	379.98	425.06	482.17	515.39	**560.79**
Cash flow per share[2] (yen)	42.33	46.68	24.12	43.72	29.06	42.63	56.76	41.26	60.89	**70.80**
Stock valuations:										
Price/Earnings ratio – PER (times)	16.1	22.4	43.7	20.4	19.1	23.5	22.2	30.9	26.1	**30.1**
Price/Cash flow ratio – PCFR (times)	13.9	8.5	26.5	15.7	23.1	20.3	16.8	39.2	26.5	**28.4**
Price/Book value ratio – PBR (times)	2.2	1.5	2.2	2.2	2.0	2.3	2.2	3.4	3.1	**3.6**
Number of customers (companies):										
In Japan (Machinery-related only)[7]	61,069	61,430	59,779	60,936	61,648	63,007	64,955	66,230	79,571	**90,223**
Overseas	41,230	47,990	52,375	61,993	67,608	91,817	100,481	108,849	133,053	**152,374**
Total number of customer companies	102,299	109,420	112,154	122,929	129,256	154,824	165,436	175,079	212,624	**242,597**
Number of employees (person):										
	3,813	4,049	3,581	4,831	5,615	7,238	8,038	8,876	9,628	**10,167**

Notes:
1. In accordance with enforcement of the Companies Act on May 1, 2006, Shareholders' Equity is listed instead of Equity.
2. After adjustment for the stock split dated July 1, 2015.
3. The ROE was calculated on the basis of net earnings for the relevant period, and the ROA was calculated on the basis of net earnings for the relevant period prior to adjustments such as taxes.
4. Interest coverage ratio = Net cash provided by operating activities / Interest payment
5. Figures for the past fiscal years were revised retroactively in accordance with changes in disclosure standards by segment.
6. Segments were changed in April 2014.
7. Stock for the Diversification Business was transferred, so the business was excluded from the report.

Messages from Top Management

Overview of FY2016 consolidated business performance

In FY2016 (April 1, 2016 - March 31, 2017), the business environment, in which the MISUMI Group operated, continued to gradually trend toward recovery as a whole. In the United States, the economy continued to rebound underpinned by an increase in consumer spending and inventory investments. In China, there were signs that economic growth had picked back up owing in part to benefits from various government policies and a strong increase in consumer spending. Meanwhile, in Japan there were indications that consumer spending and capital investments had bounced back and corporate earnings and employment rates improved.

Amid this economic environment, the MISUMI Group is leveraging its unique business model, which encompasses both manufacturing and distribution operations, to expand its operational foundation globally contributing to the manufacturing industry worldwide by eliminating customer inefficiency, while simultaneously accelerating business expansion. In an effort to address a new wave of manufacturing that positions IT at its core, we improved our competitive strength by continuing to implement Internet strategies. In addition, to expand our operations overseas, we strengthened our platform for reliable and quick deliveries globally by promoting local production, local procurement for optimal sourcing. Due to these initiatives, Factory Automation (FA) Business capturing increased demands of the automotive and electronics industry; sales increase within VONA Business due to number of customers increasing as a result of product items increasing. Consequently, consolidated net sales expanded despite impacts of forex fluctuation impacts.

As a result, we posted consolidated net sales of ¥259.0 billion, an increase of 7.9% year-on-year, an all-time high, six consecutive years running. In terms of operating income, we recorded ¥27.1 billion, an increase of 5.6% year-on-year, and net income attributable to owners of parent was ¥18.3 billion, an increase of 8.8% year-on-year similarly to net sales, surpassing all previous records.

In terms of dividends, we raised our payout ratio to 25% from FY2011 year-end where it was previously 20%. Accordingly, we paid a fiscal year-end dividend per share of ¥9.10. Combined with the interim dividend per share of ¥7.61, we plan to pay an annual dividend per share of ¥16.71, an increase of ¥1.29 from the previous year.

Accelerating our production material platform evolution

The manufacturing industry will begin to tackle major structural reforms globally ahead of the advent of Industry 4.0. In past industrial revolutions, the manufacturing industry underwent radical transformations owing to the successive emergence of ground-breaking and innovative trends that overturned fundamental manufacturing concepts. Industry 4.0 will rapidly reshape the manufacturing industry. This revolution will transcend traditional industry and corporate boundaries. IoT connectivity between factories to factories or factories to consumers, and digital manufacturing utilizing IT technology will become the yardstick in realizing fundamental business model transformation.

Structural reforms in the manufacturing industry are gradually taking place globally. This includes "Industry 4.0" in Europe, the "Industrial Internet" in the Americas, and the "China Manufacturing 2025" strategy in China.

Reflecting these structural changes, demand to streamline facility design and procurement of auxiliary materials will increase further. Also, shorter lead time will likely be expected for production facilities related components and improved efficiency for the purchasing process for auxiliary materials market used in production activities.

At the MISUMI Group, we view this change in industrial structure to be a prime opportunity to leverage our strengths. This structural transformation aligns with the strategies we have implemented to eliminate inefficiencies in the manufacturing industry. Furthermore, as an industry pioneer, MISUMI has long been deeply involved in the handling of digital data. We believe MISUMI is one of the few companies that constantly innovates and adapts its business model in this field.

By leveraging these strengths, we are converting our business to a production material platform where we can offer a wide range and variety of required products to production sites and provide information supporting manufacturing in a speedy manner.

Our business is comprised of three pillars: the manufacturing business, the distribution business, and the operational foundation that supports these two businesses. In FY2017, we will strive to strengthen these three business pillars and accelerate production material platform evolution.

Transformation of our business model to an production material platform

Manufacturing business: shifting towards a digitalized business model

〈Addressing digital manufacturing〉

MISUMI Group was able to rapidly proliferate the business internationally owing to advances made to the MISUMI QCT Model, which aims to deliver high quality (Q) at low cost (C) with quick delivery times (T), around the world.

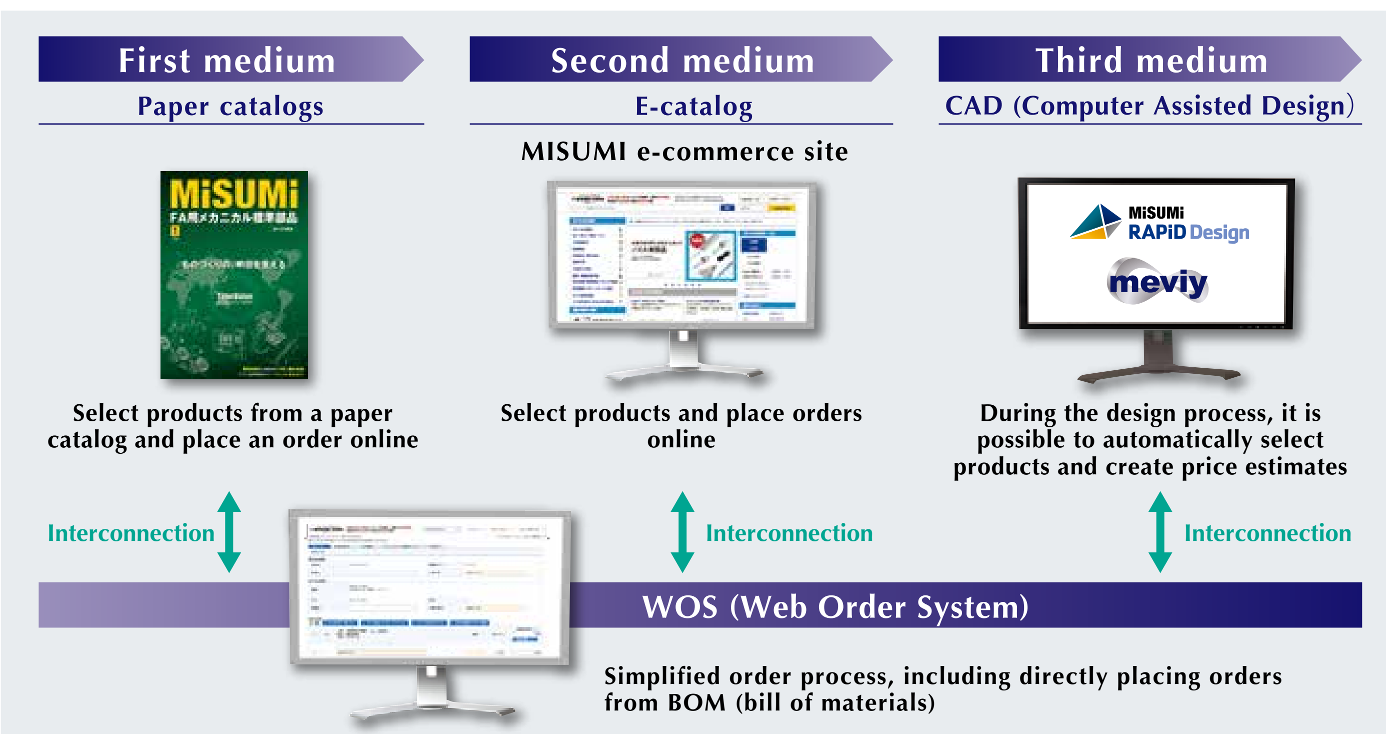
Demand for factory automation (FA) is growing on a global scale owing to acceleration of Industry 4.0 trends and advancements in digital manufacturng. Our company's strength is several folds: MTO (make-to-order) catering to requests for micron-level dimensions, even for single component order delivered reliably and quickly; E-commerce catalog which boasts excellent search ability; 3D-CAD system interconnection offered as the third medium tool-all promoting and supporting digital manufacturing.

〈Strengthening online services〉

The MISUMI Group is strengthening its e-catalog, which is the second medium following paper catalogs.Combination of the "e-catalog" and "WOS" (Web Order System) is one of our strengths.

The "e-catalog" has a search function that is capable of instantaneously searching through 80 sextillion (80 billion times one trillion) variations of make-to-order (MTO) items. It has an overwhelming advantage when it comes to searching and selecting products. The Web Order System also allows customers to order directly from the BOM (bill of materials). This and other features significantly reduce the time and effort required for generating price estimates and placing orders. Going forward, we aim to make further advances to provide customers with more convenient-to-use systems by pursuing improvements to search speeds etc.

Advances in solutions for digital manufacturing



〈Third medium reinforces support 3D-CAD〉

We have our own unique plan to address innovations to the design process through the expansion of our software tools that support facility design. We have begun providing software tools for designers that automate parts selection and price estimate generation during the design process, and dramatically shorten the lead time to order placement. RAPiD Design and meviy are two key examples that support CAD, used by design engineers.

“RAPiD Design” is a service that support the automation of component searches, selection, price estimate generation; aiding design engineers by effectively providing information during each step of the facility design process. At present, this is a service available only in Japan, but in future, we plan to expand this service for the overseas market.

“Meviy” is an online service that recognizes 3D format which allows price estimates and order placements whence customers upload their 3D-CAD design data.
In future, we plan to make this service available for the FA business; not just for the die components business.

Since launching aforementioned two services, we have received praise for their convenience and the number of users is steadily rising.

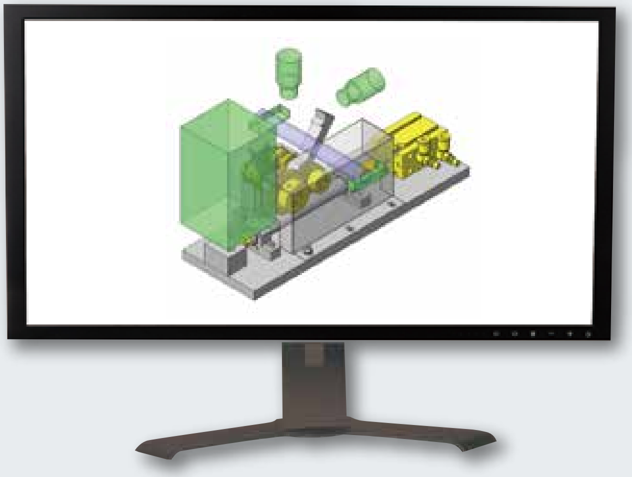
We are positioning these software tools that support 3D-CAD systems as our third medium. We aim to help streamline the facility design process for our customers.

Addressing facility design streamlining needs

MISUMI’s 3D-CAD system linkage tools

MiSUMi RAPiD Design

Supports automated search for parts/ selection/price estimate generation during the design process



Aim to establish these software tools as a third medium after paper catalogs and e-catalogs

Manufacturing business | Distribution business
Operational foundation

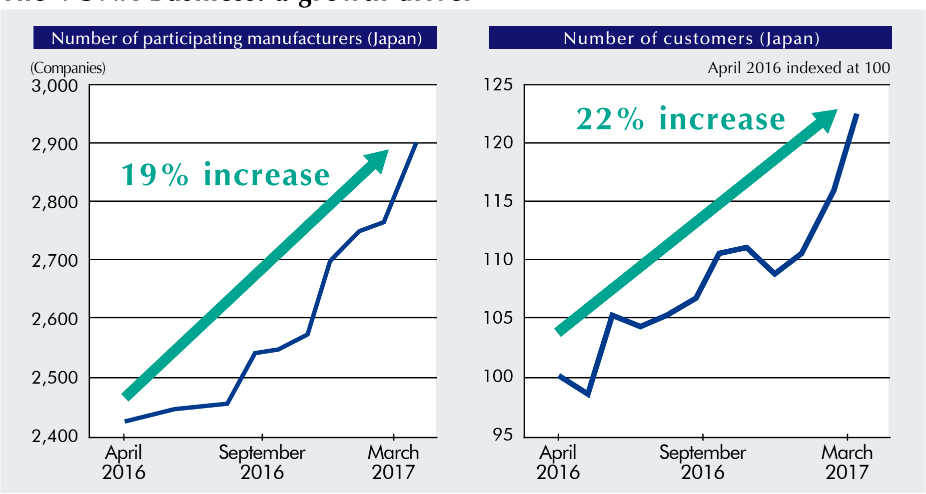
"Accelerating the global expansion" of the distribution business

The VONA* business is the MISUMI Group's distribution business. Operations consist of third-party products as well as MISUMI brand products. Our product lineup ranges from production facilities related materials, production auxiliary materials, and MRO (maintenance, repair and operations) expendable supplies. In FY2016, we expanded the number of third-party manufacturers and strengthened our product lineup, which is a growth driver for this business. In Japan, we handle 17.5 million items and we carry products for more than 2,900 third-party manufacturers.

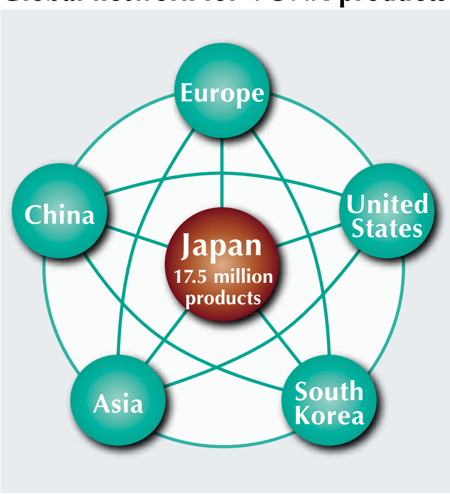
With respect to the overseas market, we began deploying the VONA business in China and South Korea. We are planning to consecutively roll out the business in Thailand, Vietnam, Indonesia, the United States, and Europe. We aim to achieve a remarkable product lineup by combining procurements in Japan and locally overseas thereby mutually supplying products globally.

*VONA: Variation & One-stop by New Alliance

The VONA Business: a growth driver



Global network for VONA products



Manufacturing business | Distribution business
Operational foundation

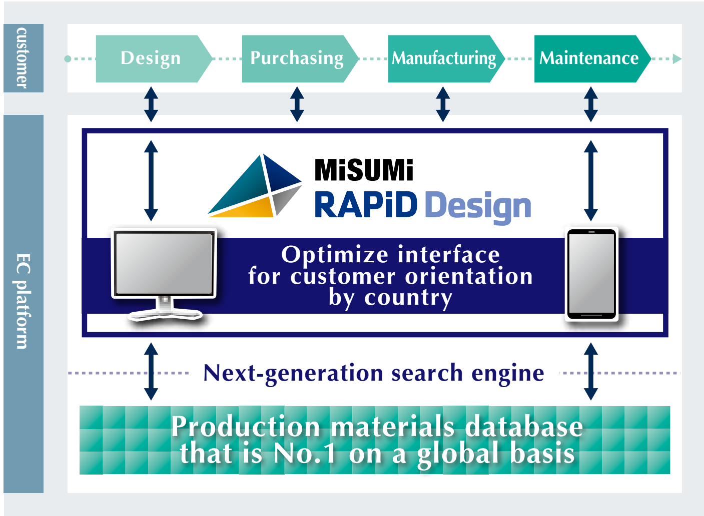
Reinforce the operational foundation

With respect to the operational foundation, we are reinforcing the distribution infrastructure and continuing to strengthen the IT infrastructure.

The reinforcement of the distribution infrastructure will consist of fully strengthening our reliable and quick deliveries globally by further increasing the number of logistic sites, already being deployed globally.

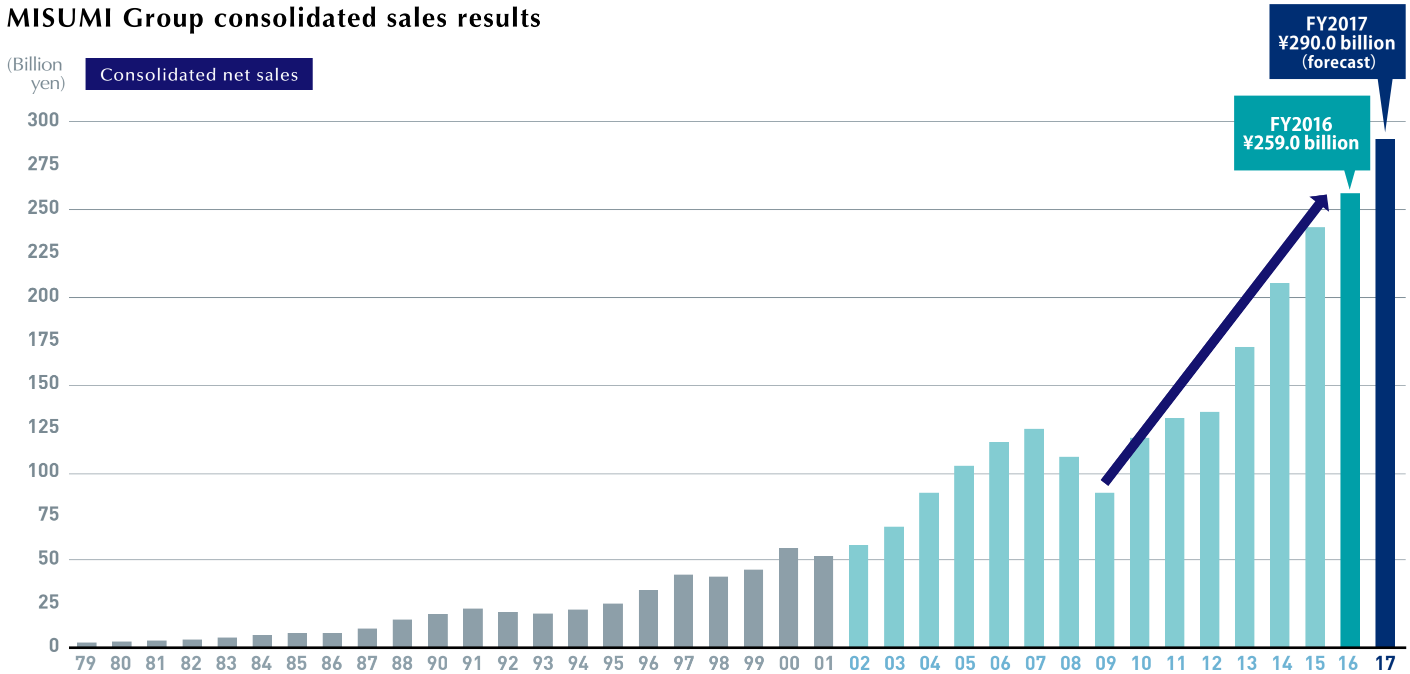
The strengthening of the IT infrastructure will entail further improving customer convenience by honing in on our e-commerce platform, which is one of our strengths, and addressing the different order formats for each country by using a next-generation search engine, which is backed by production materials database that is No.1 on a global basis.

Strengthening of the IT infrastructure



Consolidated earnings forecast for FY2017

MISUMI Group consolidated sales results



Note: Figures for FY1989 have been omitted due to changes in financial year end.

Regarding the outlook for the global economy and the Japanese economy in FY2017, although it is expected that the gradual recovery will continue, the impact of the normalization of monetary policy in the United States, the outlook for the economies of emerging Asian countries including China, coupled with effects of uncertainty and fluctuations in the financial and capital markets need to be considered. Also, attention needs to be paid to geopolitical risks, and as such uncertain situation will likely continue in the future.

Amid this market environment, the MISUMI Group aims to renew its all-time high net sales and profits. To this end, we plan to expand our product lineup, enhance our cost competitiveness, strengthen our reliable and quick deliveries globally, and increase our market share in the international market by further expanding our businesses.

We expect a dividend per-share payout of ¥19.60 (an interim dividend of ¥9.17 and a year-end dividend of ¥10.43).

The MISUMI Group would like to extend the utmost gratitude to all stakeholders for their ongoing support.

Representative Director,
President and CEO
Ryusei Ono

Topics

Implementing full-fledged sales operations at the local subsidiary in Vietnam

MISUMI establishes local subsidiary and launches e-commerce website

In July 2016, MISUMI Group Inc. established a local subsidiary in Vietnam and from February 2017 rolled out full-fledged sales operations with the launch of an e-commerce website.

Vietnam has been positioned as one of MISUMI Group's production sites since the opening of a local factory in 1995. Since then we have expanded the number of sites, opening a fourth factory in 2015. By continuously increasing our production capacity over the years, we have strengthened our capability to provide reliable and quick deliveries, globally.

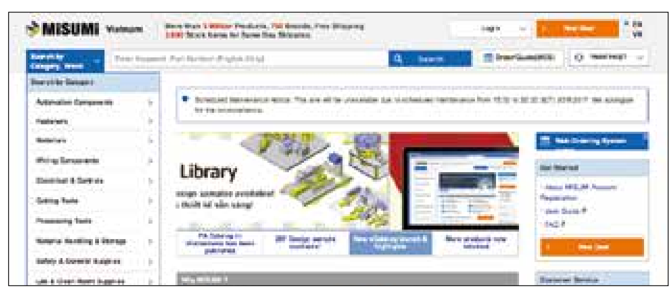
In recent years, major mobile phone, electrical machinery, and electronics manufacturers have been boosting their production capacity in Vietnam. Given that we handle a wide range of materials used in manufacturing settings, we forecast further growth in this market. In light of this, we decided to establish a local subsidiary in Vietnam. MISUMI Group currently has over 60 sales offices in around the world. MISUMI Vietnam Co., Ltd. is the MISUMI's 12th local subsidiary overseas.

An e-commerce website (http://vn.misumi-ec.com), offers 3 million products, including those for factory automation, mechanical components and electronic components, tools and other products.

Exterior of Misumi Vietnam

Overview of local Vietnam subsidiary

Company name	Misumi Vietnam Co., Ltd.
Capital	¥200 million (wholly-owned subsidiary of MISUMI Group Inc.)
Address	Tien Son Industrial Park, Bac Ninh Province, Hanoi (Ho Chi Minh sales office)
No. of employees	76 employees (as of April 1, 2017)



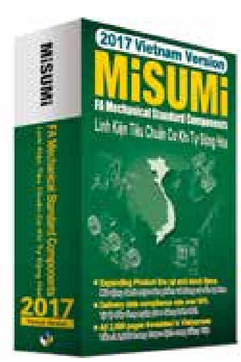
E-commerce website

Published our first paper catalog in Vietnamese

In April 2017, we published our first paper catalog for FA parts entirely in Vietnamese.

The catalog is 2,697 pages and contains more than 600,000 products.

We aim to improve parts selection and purchasing convenience for local manufacturers supporting their technological know-how assimilation by publishing a paper catalog, in addition to the e-commerce website.



Paper catalog for FA parts in Vietnamese

Our Efforts Related to Environmental and Social Contributions

Social contribution activities

The MISUMI Group is the main sponsor in supporting the bipedal walking robot fighting tournament "ROBO-ONE" organized by the Bipedal Robotics Association since 2016.

In addition, as part of the “Student Manufacturing Support” initiative, we have been providing support to student groups that partake in competitions involving cars or robots since 2008. This includes supplying FA mechanical components free of charge to students that pass a screening process.

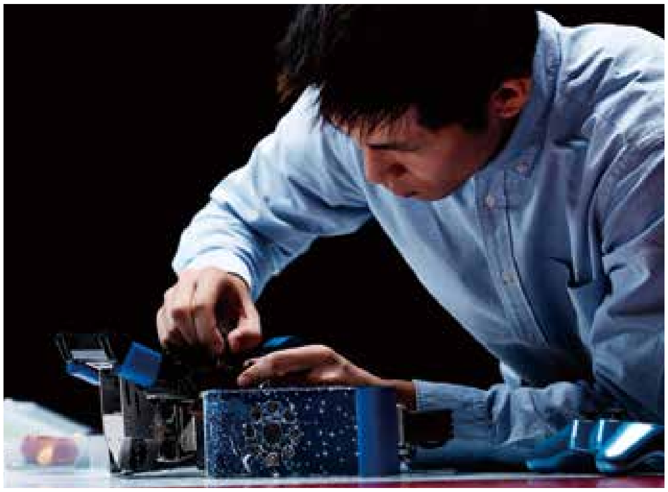
In future, we aim to provide further support to people who contribute to manufacturing, including engineers working at companies and students studying engineering.

What is “ROBO-ONE”?

ROBO-ONE is a bipedal robot fighting tournament that has been held since 2002. The objective of the tournament is to improve manufacturing technologies and increase the popularity of bipedal robots. The MISUMI Group supports the event acting as main sponsor which includes the offering of the MISUMI Award.

“MISUMI presents the 30th ROBO-ONE” was held between February 25-26, 2017 at the Bando Kobe Science Museum. This year 236 robots, an all-time record, participated in the tournament, vying for the first, second and third place. In addition, the MISUMI Award was presented to three robots that enthralled spectators with their superior design and dynamic movements.

	Robot name	Team name (picture position)
MISUMI Award winners	assault	Kobe Municipal High School of Science and Technology (pictured to the left)
	Kikyo	Mr. Shimoyoshi (center), Comprehensive Engineering Research Group, Bunka-kai, Chiba Institute of Technology
	Shiden	Mr. Kumai (pictured to the right)



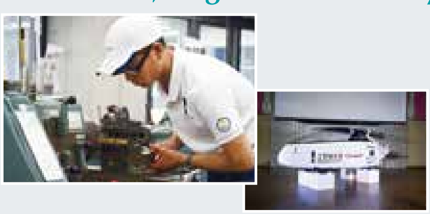
What is "Student Manufacturing Support"?

Since 2008, the MISUMI Group has been supporting student groups (approximately 1,300) that have participated in contests with self-made automobiles or robots. Participants are recruited from universities, vocational schools and high schools. We provide MISUMI mechanical components to those groups that express their enthusiasm towards manufacturing and the competition.

In 2016, we provided support to more than 200 student groups. Students can place parts orders using the "MISUMI-VONA" website, the same way as designers and other customers order components from MISUMI.

Introducing some of the groups we supported in FY2016

Solar Team, Kogakuin University



Enthusiasm towards participating in the competition

Students passionately carry out activities daily so that they can prove they are the world's fastest solar team at an - international competition.

Comment regarding the support received

"We made full use of the blueprint design data we downloaded from the e-catalog."

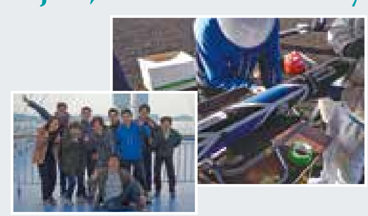
Space Technology Project, Tsukuba University

Enthusiasm towards participating in the competition

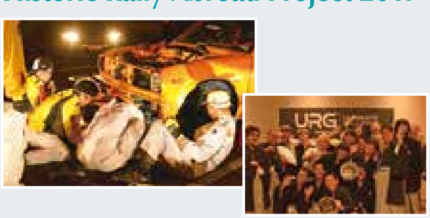
The goal for our next rocket launch is to reach a higher altitude than before and have the rocket return safely.

Comment regarding the support received

"Thanks to the high-quality parts provided, we were able to successfully launch our rocket. We have used MISUMI parts in the past so we are accustomed to handling them. We have the advantage of using parts that we know have worked in the past."



Historic Rally Abroad Project 2017 Team WAKATAKE, University of Tokyo and Honda Technical College Kanto



Enthusiasm towards participating in the competition

The combination of using an old car in a characteristic rally competition setting; anything is likely to happen. Would like to keep pursuing our goal without giving up until the end.

Comment regarding the support received

"Electronic components including wiring are naturally of great help but so were the tape and plastic bands when we run into trouble on the day of the competition."

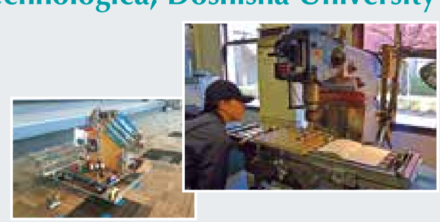
Technologica, Doshisha University

Enthusiasm towards participating in the competition

Our goal is to bring back manufacturing activities to our campus.
To this end, we are taking the initiative to participate in various competitions and produce results; eventually passing on these techniques to our underclassmen.

Comment regarding the support received

"We have a smaller budget compared to other teams, but we are still able to compete satisfactorily. Many of the parts are easy to incorporate into our design as we are provided with 3D-CAD data."



Environmental management activities

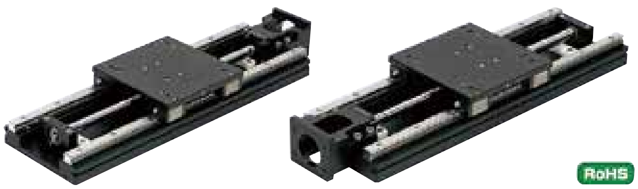
Environment-conscious products

Interest in reducing the environmental load is increasing globally, and the MISUMI Group is also experiencing a stronger interest on the part of our customers in environment-conscious products. One example of our response to such customer needs is our non-halogen-type cable (electrical wiring). Non-halogen-type cable does not produce harmful halogen gases even when the cable is incinerated upon disposal, and its use is expected to grow in the future. We currently carry not only the MISUMI brand product, but also VONA products, so our selection continues to expand.

The MISUMI Group will continue to make efforts to expand its product lineup as the use of environment-conscious products become more popular.

Managing environmental chemical substances

Controls over environmental chemical substances are tightening each year under the Restriction of Hazardous Substances (RoHS) in Europe and similar directives in China, as well as REACH in Europe. The MISUMI Group recognizes that compliance with RoHS is an important factor in a customer's product selection and is responding accordingly in the marketplace. As such, the MISUMI Group has been testing product contents on the basis of RoHS and REACH, and discloses RoHS directive compliance in our catalogs and on our website.



Single Axis Unit (FA Business)

Green procurement guidelines

The MISUMI Group formulated its Green Procurement in September 2006 to ensure adherence to environmental chemical substances legislation and other requirements.

ISO environmental activities

In April 2003, the MISUMI Group Inc. received certification under the ISO 14001 standard for environmental management systems. SURUGA Production Platform and SURUGA SEIKI were certified in January 2001.

Supporting exhibitions with the MISUMI art collection

The MISUMI Group has lent works from the MISUMI Art Collection 22 times under special arrangements with galleries holding contemporary American art exhibitions. The MISUMI Art Collection focuses on contemporary American art, and is acclaimed as farsighted and distinctive corporate art. Proponents of American contemporary art eschewed European influences to freely pursue the potential of art. That spirit coincides with the MISUMI Group's corporate philosophy of constantly pursuing innovation. Moving forward, we plan to circulate artworks on loan in response to demand from museums in other areas as well.

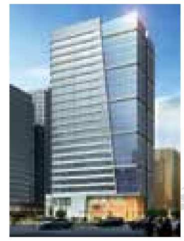
Exhibit at Museum of Contemporary Art Tokyo (2002)

Global Network (As of July, 2017)

1 MISUMI Group Inc. / 2 MISUMI Corporation

6 SURUGA Production Platform Co., Ltd.
3 SURUGA SEIKI CO., LTD.

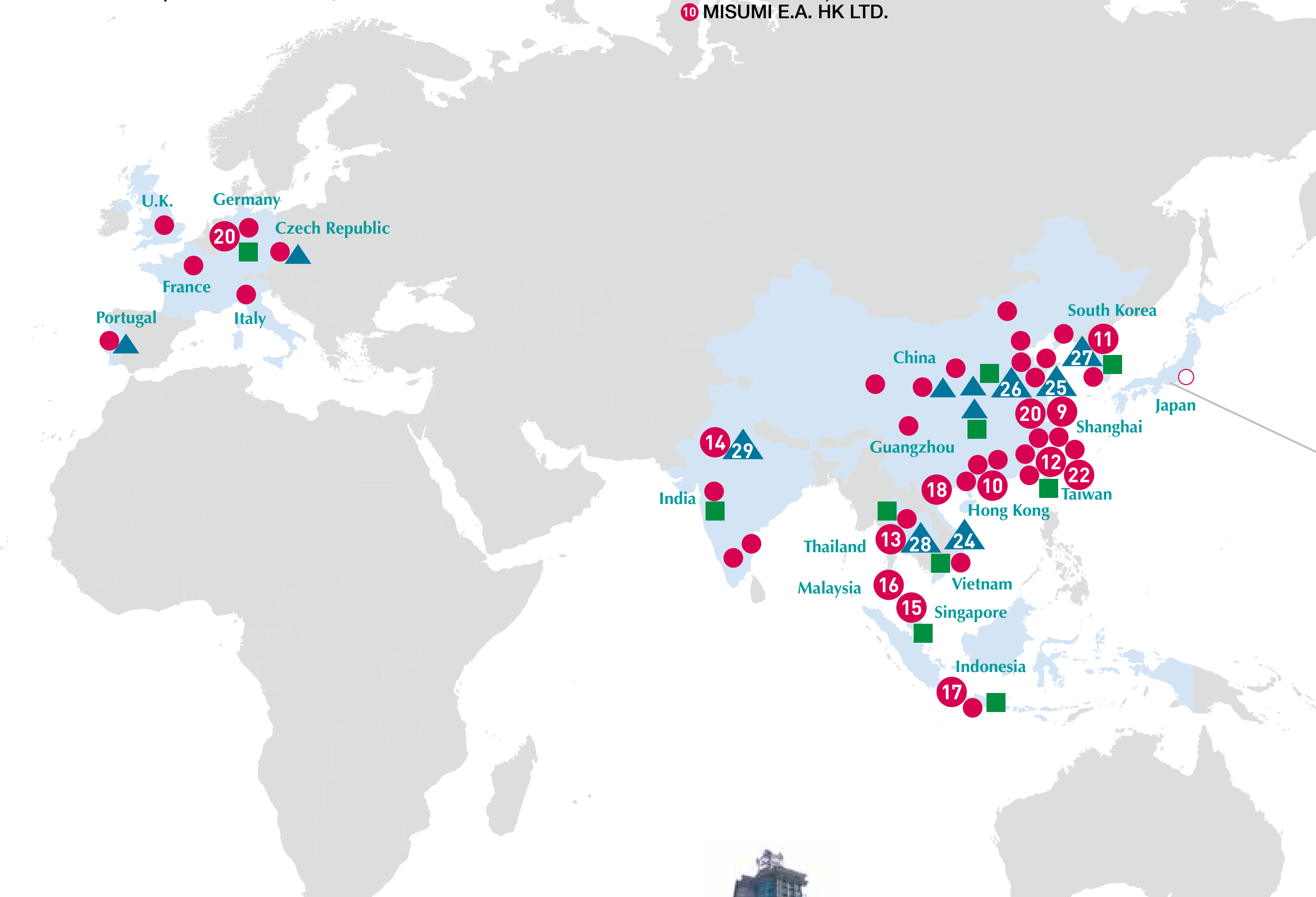
5 DAISEKI CO., LTD.



9 MISUMI (CHINA) PRECISION MACHINERY TRADING CO., LTD.
10 MISUMI E.A. HK LTD.

11 MISUMI KOREA CORP.

12 MISUMI TAIWAN CORP.



18 MISUMI VIETNAM CO., LTD.

19 MISUMI USA, Inc.

20 MISUMI Europa GmbH

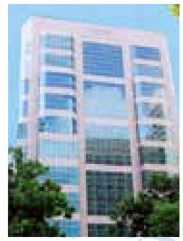
21 SURUGA SEIKI SALES & TRADING (SHANGHAI) Co., Ltd.

23 30 Dayton Lamina Corporation

24 SAIGON PRECISION CO., LTD. Linh Trung Factory 1-4

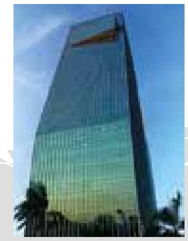
13 MISUMI (THAILAND) CO., LTD.

14 MISUMI INDIA Pvt. Ltd.

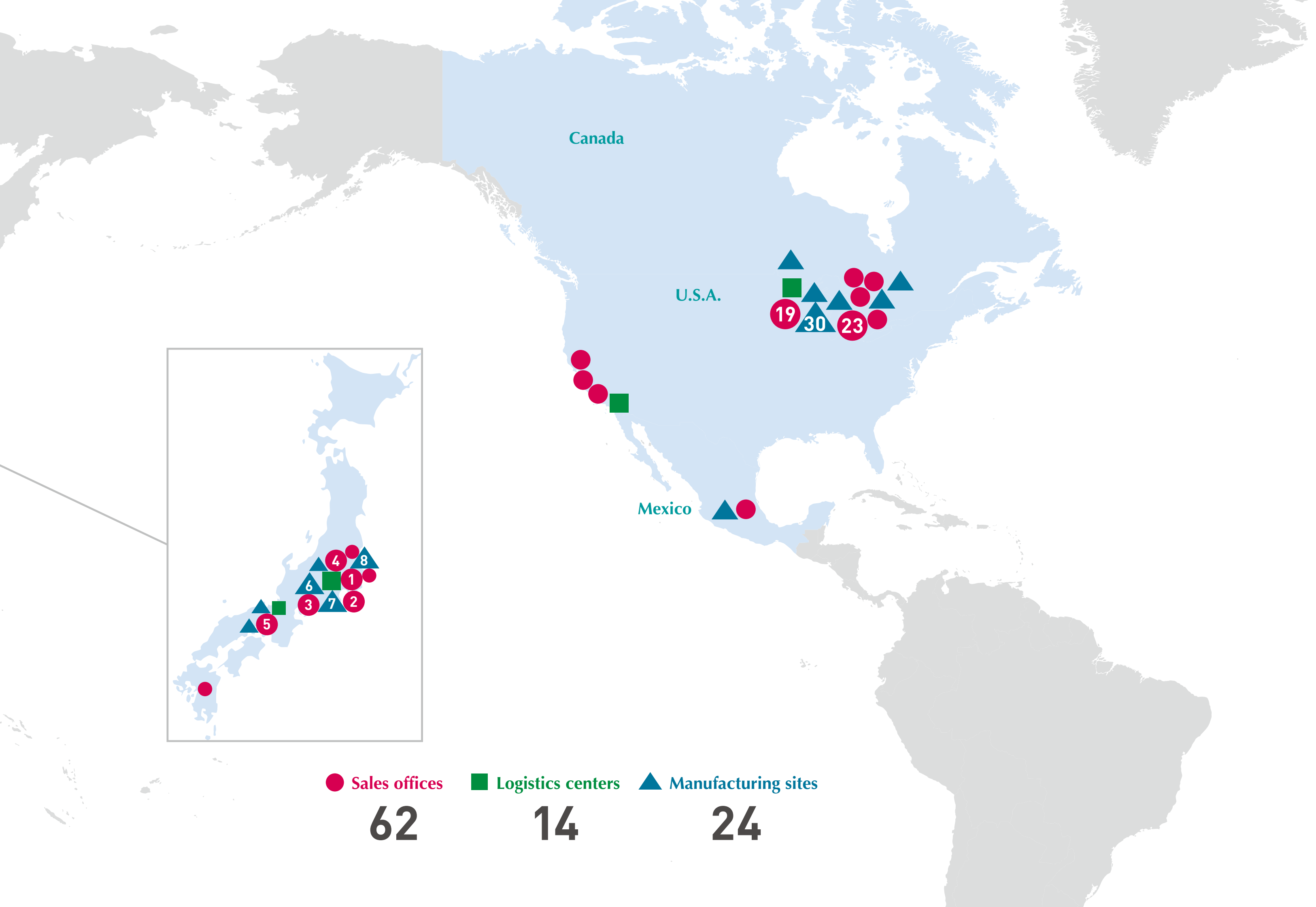


15 MISUMI SOUTH EAST ASIA PTE. LTD.

16 MISUMI MALAYSIA SDN. BHD.



17 PT. MISUMI INDONESIA



25 SURUGA SEIKI (NANTONG) CO., LTD.

26 SURUGA SEIKI (SHANGHAI) CO., LTD.

27 SURUGA KOREA CO., LTD.

28 SURUGA (THAILAND) CO., LTD.

29 SURUGA INDIA Pvt. Ltd.

*Pictures of 4 8 DAYTON PROGRESS CORPORATION OF JAPAN and 7 MISHIMA SEIKI CO., LTD. and 22 SURUGA SEIKI CO., Ltd. TAIWAN BRANCH are not included.

Operational Summary of the MISUMI Group

MISUMI Group business operations comprise: FA Business, which mainly carry standardized components for automated equipment used in factory automation and other applications; Die Components Business, which mainly carry die and mold parts used to make automobiles and electronics devices; and the VONA Business, which sells third-party brand products alongside MISUMI brand products under a new distribution business model. Products sold under the VONA Business include for production facilities related components, production auxiliary materials and maintenance, repair and operations (MRO) expendable supplies.

Major products carried by the MISUMI Group

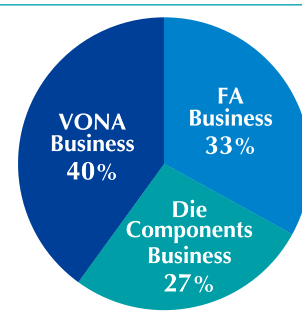
	Product category	17.5 million high-precision mechanical components			
FA Business	FA standardized mechanical components	Shafts	Timing pulleys	Linear bushings	Flat belt conveyors
FA Business	Locator devices and measurement equipment (OST Business)	Automatic stage units	Actuators	Optical measurement devices	Optical waveguide alignment
Die Components Business	Standardized metal press components	Punches	Button dies	Precision guide pins	Gas springs
Die Components Business	Standardized plastic mold components	Ejector pins	Sprue bushings	Parting lock sets	Taper pins
VONA Business	Mechanical components and screws, bolts, washers and nuts	Sensors and switches	Couplings	Screws, bolts and nuts	Castors
VONA Business	Wiring, control and PC components	Connectors	Switches	Cables	Transformers
VONA Business	Cutting tools and components for production machining	End mills	Hexagonal wrench	Milling chips	Calipers
VONA Business	Packaging, logistics & storage materials and safety & protection, environmental & sanitary and office supplies	Carts	Work gloves	Parts cleaners	Laboratory equipment & supplies

＊FA：Factory Automation　＊OST：Optical & Scientific Technology　＊VONA：Variation & One-stop by New Alliance

Catalogs

e-catalog　URL：http://jp.misumi-ec.com/

Percentage of consolidated net sales (March 31,2017)



Reinforcing Corporate Governance and Maintaining Transparency

The MISUMI Group is reinforcing its corporate governance in order to carry out its social mission and continually enhance its corporate value. To this end, it has positioned having a rich corporate governance as one of the most important tasks facing management.

Basic thinking regarding corporate governance

As of December 1, 2015, MISUMI Group Inc. has enacted and disclosed "MISUMI Group Corporate Governance Basic Policy" (http://www.misumi.co.jp/ir/library/pdf/corporate_governance.pdf) with the aim of contributing to the MISUMI Group's continuous growth and medium-to long-term enhancement of its corporate value.

Said policies state that each principle provided in the Corporate Governance Code that has been implemented at the Tokyo Stock Exchange as of June 2015 will basically be implemented.

Corporate management body and organization

The MISUMI Group directs and audits its business practices through its Board of Directors, Group Officers' Committee and Auditor Committee.

Board of Directors

The Board of Directors determine the strategic direction of the MISUMI Group and determine important operational execution, and carry the responsibility for directing and instructing the Director of Operational Execution and the Executive Officers in charge of the corporate entities and headquarters as well as service platforms, and construct suitable internal control systems.

The Board of Directors also regularly review the operation of the MISUMI Group's Internal Control System and actual Code of Conduct, as well as the internal reporting system, and will make changes as needed.

The Board of Directors comprises seven Directors, including two Outside Directors of the Board (as of this writing). As a general rule, they hold regular meetings once a month, as well as extraordinary meetings as needed, during which they make decisions regarding management and business, and direct operational execution.

Group Officers' Committee

The Group Officers' Committee comprises 17 members: five full-time directors, including the Chief Executive Officer, and 12 Representative Executive Officers from Corporate, Headquarters and Service Platforms (as of this writing). They hold regular meetings once a month to reinforce both direction and execution.

We have also established "Business Companies" and "Groups" for the MISUMI Group's business, and "Service Platforms" for business support and services, and have delegated authority and responsibility to these entities. In doing so, we have attempted to realize integrated manufacturing and sales management between the business division, which comprises the sales organization, and the manufacturing division, which comprises the SURUGA production platform, thereby expediting the decision-making process. Meetings such as business company directors' committee meetings, executive headquarters committee meetings and management meetings have been set up for each business company, group and service platform in an attempt to clarify the decision-making process.

Auditor Committee

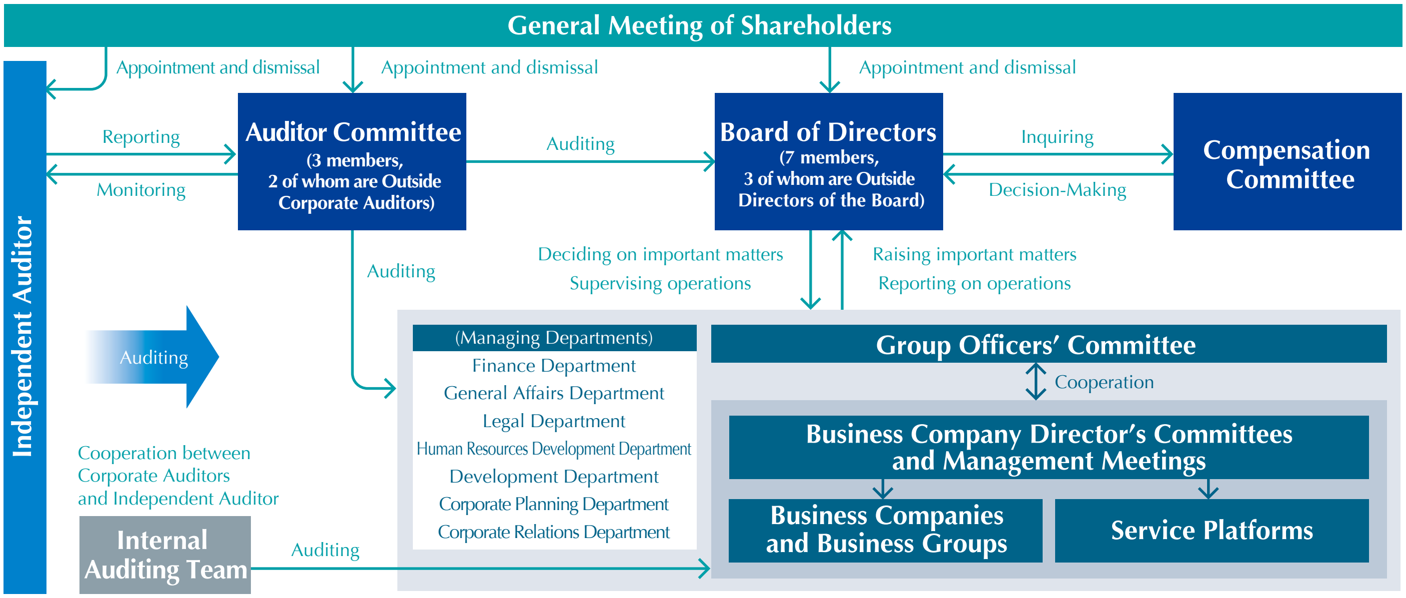
The Auditor Committee comprises three Corporate Auditors including two Outside Corporate Auditors (as of this writing). The Corporate Auditors audit the Directors' carrying out of their duties and closely cooperate with the accounting auditors and the Internal Auditing Team to improve the effectiveness and efficiency of the auditing process.

Compensation Committee

A Compensation Committee, which includes Outside Directors of the Board, has been established as an advisory body to the Board of Directors to deliberate and make decisions regarding suitable compensation standards.

Reinforcing Corporate Governance and Maintaining Transparency

Corporate governance system



Maintenance of the internal control system

The MISUMI Group Board of Directors has decided on "Basic Policy on the Internal Control System" at the Board of Directors meeting held on May 14, 2015, on the basis of the Companies Act Article 362, Paragraph 4(6) and the Ordinance for Enforcement of the Companies Act Article 100, Paragraphs 1 and 3. The decisions are as follows.

System for storing and managing information related to the execution of duties by MISUMI Group Inc.'s Directors	•Minutes of important meetings such as Board of Directors meetings and Group Officers' Committee meetings shall be prepared according to the law and regulations, and shall be stored in a suitable manner.
Regulations and other systems related to controlling risk of loss of MISUMI Group Inc. and its subsidiaries	•Regarding risks such as those related to compliance with the Act, the environment, information, export management and natural disasters by MISUMI Group Inc. and its subsidiaries (hereinafter collectively referred to as the "MISUMI Group"), the various regulations and company rules manuals shall be maintained to construct a risk management system. •In the event of unforeseen contingencies related to the MISUMI Group, a contingency countermeasures office headquarters shall be established to swiftly respond to the situation, and a progress report shall be made to the Board of Directors.
A system to ensure that the duties of the executives such as the Directors of MISUMI Group Inc. and its subsidiaries are being executed efficiently	•Management plans of the MISUMI Group are ultimately approved at the Board of Directors meetings, and their progress is checked at the Group Officers' Committee meeting held during the following month. •Important matters discovered through the progress check and the like are discussed at the Board of Directors meeting or the Group Officers' Committee meeting. •In the monthly Board of Directors meeting, business performance reports are made, and the Board monitors business performance and advises and conducts training on important matters.
A system to ensure that the execution of duties by the employees of MISUMI Group Inc. and its subsidiaries, such as its Directors, is in compliance with the law and the articles of the corporation	•Executives of the MISUMI Group shall abide by the MISUMI Group Code of Conduct, and ensure that they are in compliance with the law and the articles of the corporation. •Create a system wherein duties can be implemented appropriately by the MISUMI Group decision-making rules, such as the official regulations of administrative authority. •Establish an internal reporting system that covers the entire MISUMI Group for early discovery of violations against laws, regulations or company rules, as well as behaviors that suggest violations, and ensure prevention of detrimental treatment of whistle-blowers.
A system to ensure the suitability of reports by the Directors of subsidiaries related to the execution of duties and other work in the corporate group comprising MISUMI Group Inc. and its subsidiaries	•MISUMI Group Inc. shall have each of its subsidiaries report once a month on their business performance and state of implementation of duties. •MISUMI Group Inc. shall ensure the suitability of the duties of each of its subsidiaries through reports made by each subsidiary on its business performance and confirmation of progress on their management plan at the Group Officers' Committee. •The internal auditing division shall regularly audit the work of each subsidiary. •The MISUMI Group shall cut all ties with anti-social forces within its Code of Conduct and shall respond by facing them resolutely as a unified group.
Matters related to employees that are to assist the work of MISUMI Group Inc. Corporate Auditors	•Corporate Auditors shall be able to freely appoint auditing assistants, and the Corporate Auditor shall play a role in the relocation and evaluation of the auditing assistants. •Auditing assistants shall carry out their auditing duties under the direction of the Corporate Auditor.
System related to reporting to the MISUMI Group Inc. Corporate Auditor	•The Corporate Auditors shall attend important meetings such as the Group Officers' Committee, and the Directors and employees shall immediately report incidents or potential incidents that would have a serious impact on the MISUMI group to the Corporate Auditors. •Executives of the MISUMI Group shall submit suitable reports related to the execution of their duties as requested by the Corporate Auditors. •The Corporate Auditors shall hold regular meetings with the accounting auditors and Internal Auditing Division to exchange opinions and information, and shall request reports from the accounting auditors as needed. •The section in charge of the internal reporting system shall submit regular reports to the Corporate Auditors regarding the state of internal reporting within the MISUMI Group. •Ensure prevention of detrimental treatment of executives of the MISUMI Group who have submitted reports to the Corporate Auditors.

Operation of the internal control system

The aforementioned "Basic Policy on the Internal Control System" has been reviewed as needed, such as in response to changes in the environment outside of the company. As mentioned previously, a decision was made at the Board of Directors meeting on May 14, 2015 to adopt an amendment that reflects the revisions made in the Companies Act.

The MISUMI Group evaluated the state of operation of the "Basic Policy on the Internal Control System" for the fiscal year and verified that the Internal Control System is operating appropriately and that there are no significant deficiencies.

The major work accomplished related to the Internal Control System in this fiscal year is as follows.

- MISUMI Group has held 14 Board of Directors meetings during this fiscal year. The Board of Directors meetings and Group Officers' Committee meetings play an important role in the important decision-making as a group, and are suitably achieving the role of verification as well as supervision and instruction of implementation by the Business Companies, Groups and Service Platforms.
- We have conducted a comprehensive risk evaluation related to operations execution, information, finance, Human Resources Development Department and labor, and legal at each major center of the MISUMI Group. We have taken the results of the evaluation and have maintained and improved the regulations and rules, and educated our personnel as needed, and the internal auditing division is auditing the important centers with a sharp focus.
- We have conducted compliance training of the MISUMI Group's executives both inside and outside of Japan in an attempt to impart thorough knowledge regarding the MISUMI Group Code of Conduct.
- We have established an Internal Reporting System for the MISUMI Group as a whole, and are operating it appropriately.
- Regarding system maintenance and cooperation of the Corporate Auditors and the Board of Corporate Auditors, the system has been expanded to include full-time Corporate Auditor Assistants, and the auditing environment has been enhanced through establishing opportunities to meet with members of the Board of Directors, including Outside Directors of the Board and reinforced cooperation with the MISUMI Group Managing Departments.

Maintenance of the risk management system

Enactment of the "MISUMI Group Code of Conduct"

The MISUMI Group has enacted the "MISUMI Group Code of Conduct" in April 2008 as a guideline shared by the entire Group with the aim of achieving its social mission and becoming a trusted corporate group. This Code of Conduct also includes strict adherence to the law, and along with a guideline, has been distributed to all MISUMI Group employees to ensure thorough knowledge thereof. Company regulations and rules, such as decision-making rules of company business, are reviewed as needed in order to conduct business both appropriately and efficiently, and a system is maintained wherein lines of authority are clarified and suitable restraint is functional.

Enactment of a "Basic Policy on Information Security"

A "Basic Policy on Information Security," which states the basic thinking on information and security by the MISUMI Group, and "Confidentiality Rules," which describe the basic rules, were enacted in April 2008, and were distributed to all MISUMI Group companies, along with "Information Security Guidelines," which set detailed procedures, in an attempt to ensure thorough knowledge thereof by all employees.

The Internal Auditing Team, which is a division directly under the CEO, reinforced internal control by responding to the internal control reporting system of the Financial Instruments and Exchange Act (J-SOX) and implemented internal auditing, which has a high management risk, across MISUMI Group Inc. and all its subsidiaries. In doing so, it confirmed all processes from the discovery of risks to improvement and preventive measures, in an attempt to reduce risk occurrence. Furthermore, a system for early discovery of misconduct through an internal reporting system has also been established.

The MISUMI Group also receives advice and support as suitable from outside experts such as corporate attorneys, certified public accountants and tax accountants regarding legal matters, compliance and other important management matters.

Reinforcing Corporate Governance and Maintaining Transparency

Internal audit and auditing of Auditors

The MISUMI Group has an Internal Auditing Team that is directly under the CEO as its internal auditing division. The Internal Auditing Team conducts an internal audit of the Executive Division in a team comprising five members, prepares an Internal Audit Report containing the findings and a proposal to improve on them, and submits the report to the CEO, as well as the Corporate Auditors and the division being audited. In the event that the findings include a misconduct, a remediation plan is proposed and implemented, and the Internal Auditing Team audits the results of any improvement.

Furthermore, by the Corporate Auditor auditing from the position of being well-versed in accounting as well as laws and regulations, the transparency of the corporate conduct and the reliability of the financial numbers are enhanced. Each Corporate Auditor implements the auditing activity in accordance with the policies and implementation plan determined at the Auditor Committee meeting, and attends all important meetings related to management decision-making as a regular member, taking on the responsibility of one wing of corporate governance.

Internal Auditors and the Corporate Auditors' team share information at regular monthly meetings and in doing so, cooperate closely with the accounting auditors to improve the effectiveness and efficiency of the audits.

Outside Directors and Outside Corporate Auditors

Functions and roles met by Outside Directors and Outside Corporate Auditors in corporate governance

The MISUMI Group has a Board of Directors that has the function of managing and directing the management decision-making and operational execution by an Executive Director and Executive Officers. Of this Board of Directors comprising seven Directors, two are Outside Directors, and of the three Corporate Auditors, two are Outside Corporate Auditors. In corporate governance, the MISUMI Group believes that the function of management monitoring by an external objective and neutral party is important, and has determined that the current system of direction and checking of management by Outside Directors and independent auditing by Outside Corporate Auditors allows for sufficient functioning of management monitoring from the outside.

Standards or policies related to the autonomy for appointment as an Outside Director or Outside Corporate Auditor

The MISUMI Group's standards for appointment as an Outside Director or Outside Corporate Auditor are the same as those of an independent executive as determined by the Tokyo Stock Exchange rules.

The MISUMI Group's thinking related to the appointment of an Outside Director or Outside Corporate Auditor is as indicated in the table below. We determine that these people can carry out the role of directing and checking the MISUMI Group's management and the role of auditing fairly and objectively from an independent standpoint on the basis of their expert knowledge and experience.

Coordination and cooperation between the direction or auditing by an Outside Director and an Outside Corporate Auditor and internal auditing, auditing of auditors and accounting auditing, as well as their relationship with the Internal Control Division

An Outside Director attends the monthly Board of Directors meetings and primarily asks questions and provides advice regarding proposals and deliberations from an objective standpoint independent from the management team that is engaged in operational execution.

An Outside Corporate Auditor attends the monthly Board of Directors meetings and the Auditor Committee meetings and asks questions and provides advice regarding proposals and deliberations from the standpoint of a person having expert knowledge and experience.

The Corporate Auditors and the Internal Auditing Team, as well as accounting auditors cooperate closely by taking steps such as sharing information at regular monthly meetings in an attempt to improve the effectiveness and efficiency of the auditing activities.

Outside Director	Reason for appointment	Number of Board of Directors meetings attended in the FY ending March 2017	
Tsuyoshi Numagami	Expert knowledge and experience as an experienced economist in corporate research	14 of 14 Board of Directors meetings held in the relevant fiscal year	
Takehiko Ogi	Rich experience and broad knowledge base as a manager	14 of 14 Board of Directors meetings held in the relevant fiscal year	
Kosuke Nishimoto	Rich experience and broad knowledge base as a manager	-(Newly appointed)	
Outside Corporate Auditor	**Reason for appointment**	**Number of Board of Directors meetings attended in the FY ending March 2017**	**Number of Auditor Committee meetings attended in the FY ending March 2017**
Juichi Nozue	Expert knowledge regarding the law as an attorney	14 of 14 Board of Directors meetings held in the relevant fiscal year	20 of 20 Auditor Committee meetings held in the relevant fiscal year
Nanako Aono	Possess specialized knowledge of financial accounting due to being a certified accountant	-(Newly appointed)	

The MISUMI Group's Top Management

Directors

Director, Chairman of the Board
Tadashi Saegusa

Representative Director, President and CEO
Ryusei Ono

Director, Executive Vice President
Tokuya Ikeguchi

Executive Director and CFO
Ichiro Otokozawa

Outside Director of the Board
Takehiko Ogi

Outside Director of the Board
Kosuke Nishimoto

Corporate Officers

MISUMI Group Inc.

Representative Director, President and CEO	Ryusei Ono	Director, Executive Vice President	Tokuya Ikeguchi	Executive Director and CFO	Ichiro Otokozawa
Senior Corporate Officer	Yosuke Uchida	Senior Corporate Officer and CIO	Toshinari Sato	Senior Corporate Officer	Takaaki Wada
Corporate Officer	Makoto Ariga	Corporate Officer	Takeshi Marui	Corporate Officer	Kazumi Hagihira

Business Companies, Business Groups and Service Platforms

CEO, China Business Company	Tomoki Kanatani	CEO, Asia Business Company	Shigetaka Shimizu	Representative Corporate Officer, FA Global Business Group	Rie Nakagawa
Representative Corporate Officer, VONA Electronics Global Business Group	Shigehito Nakamura	Representative Corporate Officer, VONA Mechanical Global Business Group	Takao Kosaka	Representative Corporate Officer, VONA Tool & Supply Global Business Group	Masakazu Kato
Representative Corporate Officer, Logistics Service Platform	Michiaki Okamoto	Representative Corporate Officer, Production Service Platform	Takumi Toya	Deputy Representative Corporate Officer, MIG Service Platform	Naoki Shirao

Corporate Auditors

Corporate Auditor	Hiroshi Miyamoto	Outside Corporate Auditor	Juichi Nozue	Outside Corporate Auditor	Nanako Aono

Advisor

Special Advisor and Founder	Hiroshi Taguchi

Financial Analysis

The MISUMI Group comprises of the MISUMI Group Inc., 46 consolidated subsidiaries, 1 non-consolidated subsidiary and 2 affiliates. We categorize our business into three segments: Factory Automation Business; Die Components Business; and the VONA Business.

Business results overview

In the consolidated fiscal year, major economies around the world, including Japan, continued to gradually trend toward recovery. In the United States, the economy continued to rebound underpinned by consumer spending and inventory investments. In China, there were signs that economic growth had picked back up owing in part to benefits from various government policies and a strong increase in consumer spending. Meanwhile, in Japan there were indications that consumer spending and capital investments were picking up. In addition, there was an improvement to corporate earnings and employment rates.

Amid this economic environment, the MISUMI Group is leveraging its unique business model, encompassing both manufacturing and distribution operations, to expand its operational foundation globally contributing to the manufacturing industry worldwide by eliminating customer inefficiency, while simultaneously accelerating business expansion. In an effort to address a new wave of manufacturing that positions IT at its core, we improved our competitive strength by continuing to implement Internet strategies.

In addition, we strengthened our reliable and quick delivery system, globally. In addition, to expand our operations overseas, we strengthened our platform for reliable and quick deliveries globally by promoting local production, local procurement for optimal procurement. Due to these initiatives, Factory Automation (FA) business capturing increased demands of the automotive and electronics industry; sales increase within VONA business due to number of customers increasing as a result of product items increasing. Consequently, consolidated net sales expanded despite impacts of forex fluctuation impacts.

Reflecting this performance, we achieved record results for net sales and profits across the board. We posted consolidated net sales of ¥259,015 million, a rise of 7.9% year-on-year. In terms of profit, we recorded an operating income of ¥27,127 million, an increase of 5.6%, and ordinary income of ¥26,462 million, a growth of 5.3%. Net income attributable to owners of parent totaled ¥18,387 million, an increase of 8.8%.

Net Sales

During the consolidated fiscal year under review, consolidated net sales increased ¥18,875 million (7.9%) year-on-year to ¥259,015 million, achieving a record result for the company.

This performance was due to continued year-on-year sales growth in all three segments—FA Business, Die Components Business and the VONA Business.

Cost of sales, selling cost, general & administrative expenses

The cost of sales was ¥151,564 million (up ¥12,468 million or 9.0%). Gross profit hit a record ¥107,451 million, up ¥6,407 million (6.3%). Selling, general & administrative (SG&A) expenses was ¥80,323 million (up ¥4,971 million or 6.6%). SG&A expenses amounted to 31.0% of sales, compared to 31.4% last year. As a result, operating income was ¥27,127 million (up ¥1,436 million or 5.6%), a record result. Operating margin was 10.5%, compared to 10.7% in the previous year.

Non-operating income/loss and extraordinary income/loss

Non-operating losses totaled ¥664 million, the net difference between non-operating income and non-operating loss. Subsequently, we posted ordinary income of ¥26,462 million (up ¥1,343 million or 5.3% year-on-year) but our ordinary income margin was 10.2%, down from 10.5% a year earlier. Meanwhile, extraordinary loss was ¥391 million. Reflecting this we posted income before income taxes of ¥26,071 million (up ¥1,067 million or 4.3% year-on-year).

Net income attributable to owners of parent

Net income attributable to owners of parent was ¥18,387 million (up ¥1,479 million, or 8.8%). Net income as a percentage of sales was 7.1%, compared to 7.0% marked last year. Earnings per share was ¥66.94, compared to ¥61.65 the previous year.

Shareholder return policy

Dividend policy

MISUMI Group's basic shareholder return policy is to increase shareholder returns while simultaneously maintaining a high level of sustainable business growth, upholding profitability and capital efficiency. Specifically, our shareholder return policy comprehensively takes various factors into account, mainly the expansion of investments and operating infrastructure to improve corporate value, as well as the strengthening of our balance sheet and improvement of capital efficiency. To this end, we began implementing a dividend payout ratio of 25% from the FY2011 year-end and continue to maintain this payout ratio to date.

Generally, the MISUMI Group pays out dividends from retained earnings twice a year- after the first half and after the end of the fiscal year. According to our Articles of Incorporation, interim dividend distributions are decided at the Board of Director Meeting and year-end distributions at our Annual General Meeting of Shareholders.

Reflecting the aforementioned policy, our annual dividend for FY2016 was ¥16.71 per share. This comprises a year-end dividend of ¥9.10 per share and an interim dividend of ¥7.61 per share.

As a result, the dividend payout ratio for consolidated net income was 25.0% and net asset dividend ratio was 3.1%.

Business performance by business segment

FA Business

In the FA Business, demand is increasing globally for reliable and quick deliveries of FA components. In light of this, we are steadily instilling the MISUMI model to actively secure brisk demand for automation in the automotive and electronics related industries. Despite the unfavorable impact from forex fluctuation, we posted segment sales of ¥84,669 million (up 10.9% from a year earlier) on contribution from an expansion in sales in Japan, China, and other parts of Asia. Consequently, operating income was ¥14,417 million (up 18.6% from a year earlier).

Die Components Business

In the Die Components Business, due to expanding sales efforts to our major customers in the automotive related industry, sales was brisk in China, other parts of Asia, and Europe. Segment sales was ¥69,797 million (up 0.1% from a year earlier), due in part to unfavorable impact from forex fluctuations. Operating income was ¥3,097 million (down by 10.6% from a year earlier), partly attributable to unfavorable forex impact and an increase in costs associated with business expansion.

VONA Business

The VONA Business is the MISUMI Group's distribution business. Operations consist of third-party products as well as MISUMI brand products. Our product lineup ranges from production facilities related parts, production auxiliary material and MRO (maintenance, repair and operations) expendable supplies. We expanded our product lineup and now handle products from 2,900 manufacturers; and distribute a total of 17.5 million products. We posted segment sales of ¥104,548 million (up 11.5% from a year earlier), owing to the aforementioned undertakings and benefits from aggressive sales expansion tactics. Meanwhile, operating income was ¥9,950 million (down 2.9% from a year earlier) after taking into account forex impact and increased costs arising from expansion.

Liquidity and financial condition

Financial policy

While pursuing strong growth, the MISUMI Group also strives to maintain ample liquidity and a sound balance sheet. To achieve steady growth over the medium- to long-term, it is essential we sustain efforts to raise the bar for MISUMI Excellence in both the front end (customer service) and the back end (supplier relations). With respect to financial aspects, we are maintaining our debt free operations, while controlling asset levels. We aim to have effective management, and strive to improve our profitability and growth potential.

Cash flows

At the end of the fiscal year, cash and cash equivalents amounted to ¥47,840 million, an increase of ¥8,636 million compared to the previous year-end.

Cash inflows from operating activities was ¥19,508 million, an increase of ¥2,794 million compared to the previous year.

The breakdown of cash flows from operating activities is as follows. Income before income taxes was ¥26,071 million. Depreciation and amortization was ¥5,901 million. Amortization of goodwill was ¥1,707 million. A decrease in provision for bonuses was ¥170 million. An increase in notes and accounts receivable - trade was ¥8,785 million. An increase in inventories was ¥4,453 million. An increase in accounts payable was ¥2,851 million. Corporation taxes etc. paid was ¥9,454 million.

Cash outflows from investing activities was ¥6,056 million, a decrease of ¥3,413 million compared to the previous year. The breakdown of cash flows from investing activities is as follows. The purchase of fixed assets was ¥7,219 million. Payments into time deposits was ¥31,743 million. Income gained from refunding time deposits was ¥30,285 million.

Cash outflows from financing activities was ¥4,008 million, an increase of ¥426 million compared to the previous year. The main item of cash flows from financing activities was dividends paid out of ¥4,299 million.

Assets

Total assets at the end of fiscal year was ¥212,041 million, up ¥17,855 million (9.2%) compared to the previous year-end. Current assets was ¥160,281 million, up ¥19,486 million (13.8%).

This was mainly attributable to an increase of ¥10,288 million (19.5%) in cash and deposits; an increase of ¥8,474 million (17.2%) in notes and accounts receivable - trade; an increase of ¥2,742 million (12.1%) in merchandise and finished goods. Non-current assets was ¥51,759 million, down ¥1,631 million (-3.1%). Property, plant and equipment was ¥27,874 million, decrease of ¥1,306 million (-4.5%).

Intangible fixed assets decreased ¥702 million (-3.6%) to ¥19,012 million. Investments and other assets increased ¥377 million (8.4%) to ¥4,873 million.

Liabilities

Total liabilities was ¥56,382 million, up ¥4,529 million (8.7%) compared to the previous year-end. Current liabilities was ¥37,246 million, up ¥5,661 million (17.9%). This increase was mainly attributable to increases of ¥3,081 million (51.8%) in account payable—other, an increase of ¥2,560 million (17.8%) in notes and accounts payable - trade. Long-term liabilities was ¥19,135 million, down ¥1,131 million (-5.6%).

As a result, the current ratio was 4.3 times, and the Company maintained high stability.

Net assets

Total net assets was ¥155,658 million, up ¥13,325 million (9.4%) compared to the previous year-end. Shareholders' equity increased ¥15,249 million (11.0%) mainly due to an increase of ¥14,056 million (12.3%) in retained earnings. Other comprehensive income including foreign currency translation adjustments decreased ¥2,181 million (-73.0%).

As a result, the equity ratio was 72.9%, compared to the 72.8% marked at the end of the previous year.

Capital investments

During the consolidated fiscal year under review, the MISUMI Group implemented capital investments amounting to ¥7,219 million. As a matter of internal controls, the MISUMI Group does not allocate assets to reporting business segments. Therefore, an overview of capital investments by reporting business segments is not available.

Research and development expenditures

The MISUMI Group is involved in research and development efforts focused on manufacturing technology possessed by SURUGA Production Platform Co., Ltd. Total research and development expenditures during the fiscal year under review was ¥1,743 million. The relevant business units are responsible for their research and development activities.

The Factory Automation Business spent ¥1,450 million to develop new products and enhance productivity. The Die Components Business spent ¥292 million to expand the high-precision and high-value-added products business and to enhance productivity.

Business and other risks

Material risks that may significantly impact the business and financial situations of the MISUMI Group are as follows.

Please note that forward-looking statements provided are based on evaluations made by the MISUMI Group at the end of the fiscal year under review.

Impact to earnings from market trends in specific industries: In the FA Business and Die Components Business, the MISUMI Group primarily manufactures and sells products and goods to customers in the automotive and electronics (including liquid crystal panels and semiconductors) industries. Furthermore, in the VONA Business, the MISUMI Group sells indirect production equipment, including third-party brands and original MISUMI-branded parts related to production equipment to a wide range of customers in the manufacturing industry. Thus, production and capital investment trends in these industries, as well as in the manufacturing industry in general, may impact the business performance of the MISUMI Group.

Expansion of overseas business operations: The MISUMI Group is actively pursuing business expansion overseas by strengthening the establishment of "Local Business Units" in China, Asia, Europe, and the Americas. Political and economic changes in these regions may have a significant impact on local business operations. If business conditions do not progress according to plan, delays in the recovery of expenses and up-front investments may adversely affect the business performance and financial position of the MISUMI Group.

Quality control: The MISUMI Group manufactures and sells a diverse range of products and goods used in a wide range of fields. As such, in the event of a product defect or regulation violation (including regulations relating to the presence of hazardous constituents as well as restrictions on imports and exports), the MISUMI Group may potentially experience economic damages and/or losses of credibility, such as through product recalls, product discontinuations or various expenses and fees.

Management of customer information: The MISUMI Group handles a considerable amount of customer information as it conducts sales through e-catalogs via the Internet and through paper catalogs. Any information leaks could greatly impair trust in and cause economic losses for the MISUMI Group.

Natural disasters: Large earthquakes or other natural disasters could disrupt production or product and merchandise logistics and harm the MISUMI Group's performance and financial position.

Regarding impact due to system and Internet failure: The MISUMI Group primarily accepts product orders over the Internet using its e-catalog. A major malfunction of the Internet or the MISUMI Group's core system will impede product orders, production and distribution. This in turn is likely to negatively impact the MISUMI Group's earnings performance and financial position.

Regarding foreign exchange rate fluctuations: The MISUMI Group conducts transactions using various currencies and based on a number of terms and conditions. Foreign currency denominated transactions and foreign currency claims/outstanding obligations are likely to be impacted by fluctuations in foreign currency rates. The MISUMI Group is implementing measures to alleviate foreign exchange rate risk to a certain degree. However, this risk cannot be fully averted.

Consolidated Balance Sheet

MISUMI Group Inc. and Its Consolidated Subsidiaries
March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	**2017**
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 13)	**¥ 47,841**	¥ 39,205	**$ 426,427**
Time deposits (Note 13)	**15,339**	13,687	**136,724**
Receivables:			
Trade notes (Note 13)	**9,563**	8,545	**85,241**
Trade accounts (Note 13)	**48,285**	40,828	**430,382**
Other	**742**	1,019	**6,617**
Allowance for doubtful receivables	**(302)**	(257)	**(2,690)**
Inventories (Note 4)	**33,311**	30,059	**296,914**
Deferred tax assets (Note 10)	**3,010**	2,604	**26,831**
Other	**2,493**	5,105	**22,219**
Total current assets	**160,282**	140,795	**1,428,665**
PROPERTY, PLANT AND EQUIPMENT (Note 20):			
Land	**3,712**	3,726	**33,088**
Buildings and structures	**17,374**	17,409	**154,861**
Machinery and vehicles	**24,662**	23,271	**219,826**
Other	**7,593**	8,197	**67,679**
Total	**53,341**	52,603	**475,454**
Accumulated depreciation and impairment loss	**(25,467)**	(23,422)	**(226,998)**
Net property, plant and equipment	**27,874**	29,181	**248,456**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 13)	**6**	28	**55**
Investments in unconsolidated subsidiaries and associated companies	**198**	195	**1,762**
Software	**9,568**	6,160	**85,286**
Goodwill (Notes 2.w and 20)	**1,012**	3,457	**9,019**
Deferred tax assets (Note 10)	**1,924**	1,887	**17,151**
Other assets	**11,178**	12,483	**99,629**
Total investments and other assets	**23,886**	24,210	**212,902**
TOTAL	**¥212,042**	¥194,186	**$1,890,023**

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	**2017**
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Payables:			
Trade notes and accounts (Note 13)	**¥ 16,974**	¥ 14,414	**$ 151,299**
Accounts payable—other	**9,033**	5,951	**80,517**
Income taxes payable (Note 10)	**3,333**	3,848	**29,705**
Provision for bonuses (Note 2.m)	**2,529**	2,694	**22,538**
Other	**5,378**	4,679	**47,940**
Total current liabilities	**37,247**	31,586	**331,999**
LONG-TERM LIABILITIES:			
Convertible bonds (Notes 6 and 13)	**10,389**	11,268	**92,600**
Liability for retirement benefits (Note 7)	**4,510**	3,993	**40,197**
Deferred tax liabilities (Note 10)	**2,663**	3,462	**23,739**
Other	**1,574**	1,544	**14,030**
Total long-term liabilities	**19,136**	20,267	**170,566**
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 12 and 14)			
EQUITY (Notes 8, 9, 16, 17 and 19):			
Common stock—authorized, 1,020,000,000 shares in 2017 and 2016; issued, 275,689,140 shares in 2017 and 274,606,752 shares in 2016	**7,594**	6,997	**67,683**
Capital surplus	**17,982**	17,385	**160,283**
Stock acquisition rights	**675**	342	**6,017**
Retained earnings	**128,226**	114,170	**1,142,938**
Treasury stock—at cost, 129,178 shares in 2017 and 128,812 shares in 2016	**(77)**	(76)	**(685)**
Accumulated other comprehensive income:			
Unrealized gain (loss) on available-for-sale securities		(6)	
Foreign currency translation adjustments	**863**	3,065	**7,695**
Defined retirement benefit plans	**(57)**	(72)	**(513)**
Non-controlling interests	**453**	528	**4,040**
Total equity	**155,659**	142,333	**1,387,458**
TOTAL	**¥212,042**	¥194,186	**$1,890,023**

Consolidated Statement of Income

MISUMI Group Inc. and Its Consolidated Subsidiaries
Year Ended March 31, 2017

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2017	2016	2015	**2017**
NET SALES (Note 20)	**¥259,016**	¥240,140	¥208,563	**$2,308,722**
COST OF SALES	**151,565**	139,096	120,697	**1,350,961**
Gross profit	**107,451**	101,044	87,866	**957,761**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 11)	**80,324**	75,353	64,107	**715,964**
Operating income (Note 20)	**27,127**	25,691	23,759	**241,797**
OTHER INCOME (EXPENSES):				
Interest and dividend income	**192**	253	243	**1,713**
Interest expense	**(4)**	(3)	(8)	**(39)**
Exchange loss—net	**(909)**	(912)	(169)	**(8,104)**
Impairment loss (Notes 5 and 20)			(409)	
Gain on reversal of foreign currency translation adjustments resulting from liquidation of a foreign subsidiary		110		
Donation to promotion of management talent cultivation			(500)	
Contribution for establishing an educational institute	**(100)**			**(891)**
Loss on business restructuring	**(392)**	(225)		**(3,489)**
Other—net	**157**	90	27	**1,400**
Other expenses—net	**(1,056)**	(687)	(816)	**(9,410)**
INCOME BEFORE INCOME TAXES	**26,071**	25,004	22,943	**232,387**
INCOME TAXES (Note 10):				
Current	**8,602**	8,858	8,507	**76,672**
Deferred	**(889)**	(805)	128	**(7,918)**
Total income taxes	**7,713**	8,053	8,635	**68,754**
NET INCOME	**18,358**	16,951	14,308	**163,633**
NET INCOME ATTRIBUTABLE TO: Non-controlling interests	**(29)**	43	16	**(260)**
Owners of parent	**¥ 18,387**	¥ 16,908	¥ 14,292	**$ 163,893**

	Yen			U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK (Notes 2.u, 8, 16 and 19):	**2017**	2016	2015	**2017**
Net income	**¥66.94**	¥61.65	¥52.28	**$0.60**
Diluted net income	**64.70**	57.94	52.10	**0.58**
Cash dividends applicable to the year	**16.71**	15.42	13.05	**0.15**

(Note) The Company executed a three-for-one stock split of its common stock effective July 1, 2015. The amounts of net income per share and diluted net income per share are calculated on the assumption that the stock split had been conducted on April 1, 2014, and the amounts of cash dividends applicable to the year are adjusted to reflect the stock split.

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

MISUMI Group Inc. and Its Consolidated Subsidiaries
Year Ended March 31, 2017

	Millions of Yen			Thousands o U.S. Dollars (Note 1)
	2017	2016	2015	**2017**
NET INCOME	**¥18,358**	¥16,951	¥14,308	**$163,633**
OTHER COMPREHENSIVE INCOME (LOSS) (Note 15):				
Unrealized gain (loss) on available-for-sale securities	**6**	(14)	(4)	**54**
Foreign currency translation adjustments	**(2,226)**	(4,193)	4,305	**(19,836)**
Defined retirement benefit plans	**15**	(28)	12	**130**
Share of other comprehensive income (loss) in associates	**(11)**	(4)	5	**(101)**
Total other comprehensive income (loss)	**(2,216)**	(4,239)	4,318	**(19,753)**
COMPREHENSIVE INCOME (Note 15)	**¥16,142**	¥12,712	¥18,626	**$143,880**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 15):				
Owners of the parent	**¥16,206**	¥12,701	¥18,592	**$144,452**
Non-controlling interests	**(64)**	11	34	**(572)**

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

MISUMI Group Inc. and Its Consolidated Subsidiaries
Year Ended March 31, 2017

	Thousands	Millions of Yen									
								Accumulated other comprehensive income			
	Issued Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Stock Acquisition Rights	Non-controlling Interests	Retained Earnings	Treasury Stock	Unrealized Gain (Loss) on Available-for-sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total Equity
BALANCE, MARCH 31, 2014	272,950	¥6,375	¥16,764	¥272	¥340	¥90,005	¥ (72)	¥12	¥2,938	¥(56)	¥116,578
Cumulative effect of accounting change						(32)					(32)
RESTATED BALANCE, APRIL 1, 2014	272,950	6,375	16,764	272	340	89,973	(72)	12	2,938	(56)	116,546
Net income attributable to owners of parent						14,292					14,292
Cash dividends, ¥12.14 per share						(3,318)					(3,318)
Increase in treasury stock (1,158 shares)							(1)				(1)
Exercise of stock acquisition rights (Notes 9 and 17)	1,228	466	465								931
Net change in the year				(43)	177			(4)	4,292	12	4,434
BALANCE, MARCH 31, 2015	274,178	6,841	17,229	229	517	100,947	(73)	8	7,230	(44)	132,884
Net income attributable to owners of parent						16,908					16,908
Cash dividends, ¥13.44 per share						(3,685)					(3,685)
Increase in treasury stock (1,897 shares)							(3)				(3)
Disposal of treasury stock (78 shares)			0				0				0
Exercise of stock acquisition rights (Notes 9 and 17)	429	156	156								312
Net change in the year)				113	11			(14)	(4,165)	(28)	(4,083)
BALANCE, MARCH 31, 2016	274,607	6,997	17,385	342	528	114,170	(76)	(6)	3,065	(72)	142,333
Net income attributable to owners of parent.						**18,387**					**18,387**
Cash dividends, ¥15.66 per share						**(4,300)**					**(4,300)**
Effect resulting from change of accounting period of certain consolidated subsidiaries						**(31)**					**(31)**
Increase in treasury stock (366 shares)							**(1)**				**(1)**
Issuance of new shares (Notes 6, 9 and 17)	**1,082**	**597**	**597**								**1,194**
Net change in the year				**333**	**(75)**			**¥6**	**(2,202)**	**15**	**(1,923)**
BALANCE, MARCH 31, 2017	**275,689**	**¥7,594**	**¥17,982**	**¥675**	**¥453**	**¥128,226**	**¥ (77)**		**¥ 863**	**¥(57)**	**¥155,659**

(Note) The Company executed a three-for-one stock split of its common stock effective July 1, 2015. The number of shares of common stock and the amount of cash dividends per share are adjusted to reflect the stock split.

	Thousands of U.S. Dollars (Note 1)									
							Accumulated other comprehensive income			
	Common Stock	Capital Surplus	Stock Acquisition Rights	Non-controlling Interests	Retained Earnings	Treasury Stock	Unrealized Gain (Loss) on Available-for-sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total Equity
BALANCE, APRIL 1, 2016	$62,365	$154,965	$3,054	$4,705	$1,017,646	$(679)	$(54)	$27,320	$(643)	$1,268,679
Net income attributable to owners of parent					**163,893**					**163,893**
Cash dividends, $0.14 per share					**(38,326)**					**(38,326)**
Effect resulting from change of accounting period of certain consolidated subsidiaries					**(275)**					**(275)**
Increase in treasury stock (366 shares)						**(6)**				**(6)**
Issuance of new shares (Notes 6, 9 and 17)	**5,318**	**5,318**								**10,636**
Net change in the year			**2,963**	**(665)**			**$54**	**(19,625)**	**130**	**(17,143)**
BALANCE, MARCH 31, 2017	**$67,683**	**$160,283**	**$6,017**	**$4,040**	**$1,142,938**	**$(685)**		**$ 7,695**	**$(513)**	**$1,387,458**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

MISUMI Group Inc. and Its Consolidated Subsidiaries
Year Ended March 31, 2017

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2017	2016	2015	**2017**
OPERATING ACTIVITIES:				
Income before income taxes	**¥26,071**	¥25,004	¥22,943	**$232,387**
Adjustments for:				
Income taxes paid	**(9,455)**	(10,525)	(8,730)	**(84,271)**
Income taxes refund	**713**	779	525	**6,356**
Depreciation and amortization	**5,902**	6,029	5,426	**52,605**
Amortization of goodwill	**1,707**	1,893	1,673	**15,216**
Exchange (gain) loss	**633**	(43)	(514)	**5,645**
Impairment loss			409	
Gain on reversal of foreign currency translation adjustments resulting from liquidation of a foreign subsidiary		(110)		
Loss on business restructuring	**392**	225		**3,489**
Changes in assets and liabilities:				
(Increase) decrease in receivables	**(8,785)**	(6,344)	(6,841)	**(78,305)**
(Increase) decrease in inventories	**(4,453)**	(1,916)	(4,044)	**(39,694)**
Increase (decrease) in payables	**2,851**	1,586	1,756	**25,413**
Increase (decrease) in other current liabilities	**2,991**	(1,338)	486	**26,658**
Other—net	**941**	1,474	(1,781)	**8,389**
Total adjustments	**(6,563)**	(8,290)	(11,635)	**(58,499)**
Net cash provided by operating activities	**19,508**	16,714	11,308	**173,888**
INVESTING ACTIVITIES:				
Proceeds from sales and redemption of marketable securities	**24**	1,600	2,300	**210**
Purchase of fixed assets	**(7,220)**	(9,126)	(8,487)	**(64,354)**
Proceeds from sales of fixed assets	**5**	497		**40**
Refund from time deposits	**30,286**	24,349	25,341	**269,951**
Payment into time deposits	**(31,743)**	(24,597)	(24,439)	**(282,941)**
Payment of loans receivable			(100)	
Other—net (Note 18)	**2,592**	(2,193)	(2,064)	**23,107**
Net cash used in investing activities	**(6,056)**	(9,470)	(7,449)	**(53,987)**
FINANCING ACTIVITIES:				
Repayments of long-term loans payable		(46)		
Increase (decrease) in short-term bank loans—net		(111)	(900)	
Proceeds from issuance of stock	**292**	263	765	**2,600**
Acquisition of treasury stock	**(1)**	(3)	(1)	**(6)**
Proceeds from disposal of treasury stock		0		
Dividends paid	**(4,300)**	(3,685)	(3,318)	**(38,326)**
Net cash used in financing activities	**(4,009)**	(3,582)	(3,454)	**(35,732)**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**(25)**	(1,724)	2,609	**(224)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**9,418**	1,938	3,014	**83,945**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**39,205**	37,267	34,253	**349,450**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS RESULTING FROM CHANGES IN CLOSING DATES OF CONSOLIDATED SUBSIDIARIES	**(782)**			**(6,968)**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥47,841**	¥39,205	¥37,267	**$426,427**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

MISUMI Group Inc. and Its Consolidated Subsidiaries

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2015 and 2016 financial statements to conform them to the classifications used in 2017.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which MISUMI Group Inc. (the “Company”) is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥112.19 to $1, the rate of exchange at March 31, 2017. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. ***Consolidation*** — The consolidated financial statements as of March 31, 2017 include the accounts of the Company and its 46 (45 as of March 31, 2016) subsidiaries (together, the “Group”).

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

One subsidiary, WUXI PARTS SEIKO PRECISION IND CO., LTD., is not consolidated in 2017 because it would have an immaterial effect on the accompanying consolidated financial statements. Investments in two associated companies are accounted for by the equity method.

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

The differences between the cost and underlying net equity of investments in consolidated subsidiaries at acquisition are recorded as goodwill included in investments and other assets and are being amortized on a straight-line basis over five years.

All significant intercompany balances and transactions have been eliminated in consolidation.

All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

To more accurately disclose the consolidated financial results, starting from the year ended March 31, 2017, MISUMI (CHINA) PRECISION MACHINERY TRADING CO., LTD and other 27 consolidated subsidiaries, which officially settle their accounts on December 31st of each year, conduct a provisional book-closing on March 31, in line with the fiscal year, to facilitate the preparation of consolidated financial statements. Accordingly, the Group prepared the consolidated financial statements for the fiscal year (April 1, 2016-March 31, 2017). Note that profits/losses posted in the January 1, 2016-March 31, 2016 quarter have been reflected as a change in retained earnings.

b. ***Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements*** — In May 2006, the Accounting Standards Board of Japan (the “ASBJ”) issued ASBJ Practical Issues Task Force (“PITF”) No. 18, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements.”

PITF No. 18 prescribes that (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America may tentatively be used for the consolidation process, (3) however, the following four items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.

c. ***Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method*** — In March 2008, the ASBJ issued ASBJ Statement No. 16, “Accounting Standard for Equity Method of Accounting for Investments.” The new standard requires adjustments to be made to conform the associate’s accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.

d. *Cash Equivalents* — Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to an insignificant risk of changes in value. Cash equivalents include time deposits which mature or become due within three months of the date of acquisition.

e. *Inventories* — Merchandise and material are principally stated at cost determined by the moving average method (balance sheets amounts are written down on the basis of any decreased profitability). Finished goods, work in progress and supplies are principally stated at cost determined by the periodic average method (balance sheets amounts are written down on the basis of any decreased profitability).

f. *Marketable and Investment Securities* — Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

g. *Allowance for Doubtful Accounts* — To provide for credit loss, provisions are made for doubtful accounts based on an estimate of the uncollectible amount calculated using the historical default rate for normal loans or a reasonable estimate based on the financial condition of individual borrowers for doubtful and default loans.

h. *Property, Plant and Equipment* — Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment held by domestic consolidated subsidiaries is computed principally by the declining-balance method. However, buildings (except for facilities attached to buildings) acquired on and after April 1, 1998, and facilities attached to buildings as well as structures acquired on and after April 1, 2016 are computed by the straight-line method. The straight-line method is applied to property, plant and equipment held by consolidated foreign subsidiaries.

The range of useful lives is principally as follows:

Buildings and structures	2 to 45 years
Machineries and vehicles	2 to 12 years

i. *Impairment of Long-lived Assets* — The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

j. *Other Assets* —Intangible assets and goodwill are carried at cost less accumulated amortization, which is calculated by the straight-line method over 5 to 15 years for intangible assets and 5 years for goodwill.

k. *Research and Development Costs* — Research and development costs are charged to income as incurred.

l. *Retirement Plan* — The Company and consolidated subsidiaries have funded/non-funded defined benefit plans and defined contribution plans for payments to terminated employees. In addition, the Company and certain consolidated subsidiaries have an employee pension fund.

Effective April 1, 2000, the Company adopted a new accounting standard for retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a straight-line basis. Actuarial gains and losses are charged to income as incurred, whereas they are amortized over ten years for those incurred in certain consolidated subsidiaries.

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

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

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

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

m. ***Provision for bonuses*** — The Company and certain consolidated subsidiaries provide provision for employees' and directors' bonuses for employees and directors based on future projections for the current fiscal year.

n. ***Asset Retirement Obligations*** — In March 2008, the ASBJ issued ASBJ Statement No. 18 "Accounting Standard for Asset Retirement Obligations," and ASBJ Guidance No. 21 "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

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

o. ***Stock Options*** — On December 27, 2005, the ASBJ issued ASBJ Statement No. 8, "Accounting Standard for Stock Options," and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

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

The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008.

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

The Company has applied the revised accounting standard effective from the year ended March 31, 2009.

All leases are accounted for as operating leases.

q. ***Derivative Financial Instruments*** — The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange. Foreign currency forward contracts are utilized by the Group to reduce foreign currency exchange risks. The Group does not enter into derivatives for trading or speculative purposes. All derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income.

r. ***Income Taxes*** — The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

The Company and certain consolidated subsidiaries in Japan filed for approval of the adoption of the consolidated tax system in the year ended March 31, 2017, and the application of the system will start from the year ending March 31, 2018. Accordingly, from the year ended March 31, 2017, the Company has applied accounting procedures based on the application of the consolidation taxation system. Also, deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

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

s. ***Foreign Currency Transactions*** — All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates as of the consolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income.

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

u. *Per Share Information* — Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if stock option rights were exercised or convertible bonds were converted.

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

On July 1, 2015, the Company executed a three-for-one stock split by way of a free share distribution based on the resolution of the Board of Directors meeting held on May 14, 2015. All prior year share and per share figures have been restated to reflect the impact of the stock split, and to provide data on a basis comparable to the year ended March 31, 2017 and 2016. Such restatements include calculations regarding the Company's weighted-average number of common shares, basic net income per share, diluted net income per share, stock option data of the Company's common stock, and cash dividends per share.

v. *Accounting Changes and Error Corrections* — In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows:

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

(2) Changes in Presentation
When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation.

(3) Changes in Accounting Estimates
A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4)Corrections of Prior Period Errors
When an error in prior period financial statements is discovered, those statements are restated.

w. *Business Combinations* — In October 2003, the Business Accounting Council (the "BAC") issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005, the ASBJ issued ASBJ Statement No. 7, "Accounting Standard for Business Divestitures" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures."

In December 2008, the ASBJ issued a revised ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows:

(1) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling-of-interests method of accounting is no longer allowed.

(2) The previous accounting standard required research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development costs (IPR&D) acquired in the business combination are capitalized as an intangible asset.

(3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation.

The Company acquired all shares in Connell Industrial Tool Corporation, the holding company that wholly owns Dayton Progress Corporation and Anchor Lamina America, Inc. ("Dayton Lamina") on November 6, 2012 and accounted for the acquisition by the purchase method of accounting. The related goodwill is systematically amortized over 5 years.

3. CHANGE IN ACCOUNTING POLICY

In June 2016, the ASBJ issued Practical Issues Task Force No. 32 "Practical Solution on a change in depreciation method due to Tax Reform 2016 " following the revision to the Corporation Tax Act. Accordingly, the depreciation method for facilities attached to buildings as well as structures acquired on or after April 1, 2016 was changed from the declining-balance method to the straight-line method. The impact of this change on the consolidated financial statements for the year ended March 31, 2017 is immaterial.

4. INVENTORIES

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

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Merchandise	**¥24,832**	¥22,312	**$221,341**
Finished goods	**617**	394	**5,497**
Materials	**4,283**	3,932	**38,174**
Supplies	**1,364**	1,527	**12,156**
Work in process	**2,215**	1,894	**19,746**
Total	**¥33,311**	¥30,059	**$296,914**

5. IMPAIRMENT

For the years ended March 31, 2017 and 2016, there were no impairment losses recognized.

For the year ended March 31, 2015, the Group recognized an impairment loss of ¥409 million as other expense for idle assets located in Ho Chi Minh City, Vietnam, Iwaki City, Fukushima Prefecture, and Tokyo. As a result of consideration of future collectability, the carrying amounts for the relevant assets were written down to the recoverable values and the decreased amounts were recorded as an impairment loss: ¥259 million for machinery and vehicles, ¥58 million for land, and ¥92 million for software. The recoverable values of the assets were measured by their net sales values. The net sales value is measured based on the contract sales price for assets to be sold and disposal price for assets to be disposed.

6. LONG-TERM DEBT

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

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Zero-coupon convertible bonds due 2018	**¥10,389**	¥11,268	**$92,600**
2017: 92,600,000 U.S. Dollars			
2016: 100,000,000 U.S. Dollars			
Total	**10,389**	11,268	**92,600**
Less current portion			
Long-term debt, less current portion	**¥10,389**	¥11,268	**$92,600**

Annual maturities of long-term debt as of March 31, 2017, for the next five years and thereafter were as follows:

	2017	
Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2018		
2019	**¥10,389**	**$92,600**
2020		
2021		
2022 and thereafter		
Total	**¥10,389**	**$92,600**

For the year ended March 31, 2017, a portion of convertible bonds was converted into 604 thousand shares of common stock. Under specific conditions, the convertible bonds outstanding at March 31, 2017, are convertible into 7,553 thousand shares of common stock of the Company through October 8, 2018 at $12.26 per share. The conversion prices of the convertible bonds are subject to adjustments in certain circumstances. Pursuant to the terms and conditions of the convertible bonds, the conversion price of $12.24 is retroactively applied to any conversion requests from March 29, 2016 to March 28, 2017, and the conversion price of $12.23 is applied to any conversion requests from March 29, 2017.

7. RETIREMENT PLANS

The Company and consolidated subsidiaries have funded/non-funded defined benefit plans for payments to terminated employees. In addition, the Company and certain consolidated subsidiaries have an employees' pension fund.

The Company and certain subsidiaries participate in a multi-employer plan (including the contracted-out portion) for which the Company cannot reasonably calculate the amount of plan assets corresponding to the contributions made by the Company. Therefore, it is accounted for using the same method as a defined contribution plan.

However, the Social Welfare Pension Fund of Nippon Sheet Metal Presswork (the "Fund") that the Company and certain consolidated domestic subsidiaries have joined would request an increased burden on members, such as through increased member contributions, for its survival following recent changes in Employees' Pension Insurance Act. Based on the conclusion that it is difficult to continue its operation, ordinary dissolution of the fund was resolved at a meeting of the board members of the fund on August 4, 2014. On September 29, 2016, the dissolution was approved by the Minister for Health, Labour and Welfare and, as of March 31, 2017, the fund is in the process of liquidation. No additional expenses are expected to arise from the dissolution of the fund.
Accordingly, a portion of the Company's defined benefit plan was transferred to defined contribution plans in October 2016.

a. Defined benefit plan

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

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Balance at beginning of year	**¥5,262**	¥4,670	**$46,898**
Current service cost	**780**	712	**6,953**
Interest cost	**23**	29	**210**
Actuarial losses	**152**	109	**1,352**
Benefits paid	**(268)**	(233)	**(2,389)**
Others	**7**	(25)	**61**
Balance at end of year	**¥5,956**	¥5,262	**$53,085**

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

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Balance at beginning of year	**¥1,269**	¥1,131	**$11,308**
Expected return on plan assets	**23**	18	**204**
Actuarial losses	**(3)**	(4)	**(27)**
Contributions from the employer	**211**	200	**1,880**
Benefits paid	**(59)**	(57)	**(521)**
Others	**5**	(19)	**44**
Balance at end of year	**¥1,446**	¥1,269	**$12,888**

(3) A reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2017 and 2016 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Funded defined benefit obligation	**¥1,662**	¥1,553	**$14,812**
Plan assets	**(1,446)**	(1,269)	**(12,888)**
	216	284	**1,924**
Unfunded defined benefit obligation	**4,294**	3,709	**38,273**
Net liability for defined benefit obligation	**¥4,510**	¥3,993	**$40,197**

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Liability for retirement benefits	**¥4,510**	¥3,993	**$40,197**
Asset for retirement benefits			
Net liability for defined benefit obligation	**¥4,510**	¥3,993	**$40,197**

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

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Service cost	**¥780**	¥712	**$6,953**
Interest cost	**23**	29	**210**
Expected return on plan assets	**(23)**	(18)	**(204)**
Recognized actuarial losses	**178**	70	**1,583**
Others	**2**	(6)	**16**
Net periodic benefit costs	**¥960**	¥787	**$8,558**

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Actuarial differences	**¥23**	¥(43)	**$204**
Total	**¥23**	¥(43)	**$204**

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

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Unrecognized actuarial differences	**¥88**	¥111	**$785**
Total	**¥88**	¥111	**$785**

(7) Plan assets as of March 31, 2017 and 2016
(a) Components of plan assets
Plan assets consisted of the following:

	2017	2016
Cash and cash equivalents	**23%**	21%
General accounts	**74**	76
Others	**3**	3
Total	**100%**	100%

(b) Method of determining the expected rate of return on plan assets
The expected rate of return on plan assets is determined considering the current and expected assets allocation and long-term rates of return which are expected currently and in the future from the various components of the plan assets.

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

	2017	2016
Discount rate	**0.35% — 0.50%**	0.33% — 0.50%
Expected rate of return on plan assets	**2.18%**	2.11%

b. Multiple employers plan

The amounts required to be contributed to the Social Welfare Pension Fund under the multiple employers plan, which is accounted for in the same way as the defined contribution plan for the years ended March 31, 2017 and 2016, are ¥225 million ($2,003 thousand) and ¥292 million, respectively. The above-mentioned plan is currently in the process of liquidation. Accordingly, the most recent funding status of the Social Welfare Pension Fund for the year ended March 31, 2017, the percentage of the Group's contributions to the total plan, and other supplemental information are omitted. The most recent funding status and other information for the year ended March 31, 2016 are as follows.

Funding status of the Social Welfare Pension Fund of Nippon Sheet Metal Presswork as of March 31, 2015

	Millions of Yen
	2015
Plan assets	¥76,331
Total of actuarial obligation and minimum actuarial reserve	85,613
Difference	¥(9,282)

(Note) The above shows the latest figures released by the Social Welfare Pension Fund of Nippon Sheet Metal Presswork.

	2015
Percentage of the Group's contributions to the total plan	11.34%

As of March 31, 2015, the difference for the Social Welfare Pension Fund of Nippon Sheet Metal Presswork (the "Fund") is due to a past service liability from the pension benefit calculation of ¥10,581 million and carryforward surplus of ¥1,299 million. The past service liability is amortized on a straight-line basis over a period of 14 years.

c. Defined contribution plan

The amount required to be contributed to the defined contribution plan is ¥81 million ($725 thousands) for the year ended March 31, 2017.

8. EQUITY

The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as: (1) having a Board of Directors, (2) having independent auditors, (3) having a Board of Corporate Auditors, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation.

The Companies Act permits companies to distribute dividends-in-kind (non cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock.

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

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as an earned legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the aggregate amount of the earned legal reserve and additional paid-in capital equals 25% of the common stock. The Companies Act also provides that common stock, an earned legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders that is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

On July 1, 2015, the Company executed a three-for-one stock split by way of a free share distribution based on the resolution of the Board of Directors' meeting held on May 14, 2015.

9. STOCK OPTIONS

Information related to the stock options for the year ended March 31, 2017 is as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2009 Stock Option (1)	7 directors	1,458,000 shares	2009.7.10	¥478 ($4.26)	From August 1, 2011 to July 31, 2016
2010 Stock Option (1)	6 directors	1,560,000 shares	2010.7.2	¥609 ($5.43)	From August 1, 2012 to July 31, 2018
2010 Stock Option (2)	38 employees of the Group	465,000 shares	2010.7.2	¥609 ($5.43)	From August 1, 2012 to July 31, 2018
2012 Stock Option (1)	6 directors	1,440,000 shares	2012.7.3	¥631 ($5.62)	From August 1, 2014 to July 31, 2021
2012 Stock Option (2)	33 employees of the Group	375,000 shares	2012.7.3	¥631 ($5.62)	From August 1, 2014 to July 31, 2021
2014 Stock Option (1)	5 directors	39,000 shares	2014.11.7	¥ 1 ($0.01)	From November 8, 2014 to November 7, 2044
2014 Stock Option (2)	4 directors	133,800 shares	2014.11.7	¥ 1 ($0.01)	From November 7, 2017 to November 6, 2024
2014 Stock Option (3)	58 employees of the Group	117,300 shares	2014.11.7	¥ 1 ($0.01)	From November 7, 2017 to November 6, 2024
2016 Stock Option (1)	5 directors	31,400 shares	2016.2.25	¥ 1 ($0.01)	From February 26, 2016 to February 25, 2046
2016 Stock Option (2)	5 directors	170,500 shares	2016.2.25	¥ 1 ($0.01)	From February 25, 2019 to February 24, 2026
2016 Stock Option (3)	69 employees of the Group	135,400 shares	2016.2.25	¥ 1 ($0.01)	From February 25, 2019 to February 24, 2026
2016 Stock Option (4)	5 directors	28,500 shares	2016.10.3	¥ 1 ($0.01)	From October 4, 2016 to October 3, 2046
2016 Stock Option (5)	5 directors	181,800 shares	2016.10.3	¥ 1 ($0.01)	From October 3, 2019 to October 2, 2026
2016 Stock Option (6)	84 employees of the Group	180,000 shares	2016.10.3	¥ 1 ($0.01)	From October 3, 2019 to October 2, 2026

(Note) The number of shares is adjusted to reflect a three-for-one stock split executed effective July 1, 2015.

The stock option activity is as follows:

	2009 Stock Option (1)	2010 Stock Option (1)	2010 Stock Option (2)	2012 Stock Option (1)	2012 Stock Option (2)	2014 Stock Option (1)	2014 Stock Option (2)
				(Shares)			
For the Year Ended March 31, 2016							
Non-vested:							
March 31, 2015—outstanding							133,800
Granted							
Canceled							
Vested							
March 31, 2016—outstanding							133,800
Vested:							
March 31, 2015—outstanding	61,500	318,000	45,000	498,000	144,000	39,000	
Vested							
Exercised	49,800	153,900	21,000	74,400	51,900		
Canceled							
March 31, 2016—outstanding	11,700	164,100	24,000	423,600	92,100	39,000	
For the Year Ended March 31, 2017							
Non-vested:							
March 31, 2016—outstanding							**133,800**
Granted							
Canceled							
Vested							
March 31, 2017—outstanding							**133,800**
Vested:							
March 31, 2016—outstanding	**11,700**	**164,100**	**24,000**	**423,600**	**92,100**	**39,000**	
Vested							
Exercised	**11,700**	**120,000**	**9,000**	**329,100**	**9,000**		
Canceled							
March 31, 2017—outstanding		**44,100**	**15,000**	**94,500**	**83,100**	**39,000**	

				Yen (U.S. Dollars)			
Exercise price	**¥478 ($4.26)**	**¥609 ($5.43)**	**¥609 ($5.43)**	**¥631 ($5.62)**	**¥631 ($5.62)**	**¥ 1 ($ 0.01)**	**¥ 1 ($ 0.01)**
Fair value price at grant date	**¥ 90 ($0.80)**	**¥110 ($0.98)**	**¥110 ($0.98)**	**¥141 ($1.26)**	**¥141 ($1.26)**	**¥1,172 ($10.45)**	**¥1,136 ($10.13)**

	2014 Stock Option (3)	2016 Stock Option (1)	2016 Stock Option (2)	2016 Stock Option (3)	2016 Stock Option (4)	2016 Stock Option (5)	2016 Stock Option (6
				(Shares)			
For the Year Ended March 31, 2016							
Non-vested:							
March 31, 2015—outstanding	117,300						
Granted		31,400	170,500	135,400			
Canceled	5,700						
Vested		31,400					
March 31, 2016—outstanding	111,600		170,500	135,400			
Vested:							
March 31, 2015—outstanding							
Vested		31,400					
Exercised							
Canceled							
March 31, 2016—outstanding		31,400					
For the Year Ended March 31, 2017							
Non-vested:							
March 31, 2016—outstanding	**111,600**		**170,500**	**135,400**			
Granted					**28,500**	**181,800**	**180,000**
Canceled	**3,300**			**3,300**			**3,100**
Vested					**28,500**		
March 31, 2017—outstanding	**108,300**		**170,500**	**132,100**		**181,800**	**176,900**
Vested:							
March 31, 2016—outstanding		**31,400**					
Vested					**28,500**		
Exercised							
Canceled							
March 31, 2017—outstanding		**31,400**			**28,500**		

				Yen (U.S. Dollars)			
Exercise price	**¥ 1 ($ 0.01)**	**¥ 1 ($ 0.01)**	**¥ 1 ($ 0.01)**	**¥ 1 ($ 0.01)**	**¥ 1 ($ 0.01)**	**¥ 1 ($ 0.01)**	**¥ 1 ($ 0.01)**
Fair value price at grant date	**¥1,136 ($10.13)**	**¥1,483 ($13.22)**	**¥1,428 ($12.73)**	**¥1,428 ($12.73)**	**¥1,876 ($16.72)**	**¥1,809 ($16.12)**	**¥1,809 ($16.12)**

(Note) The Company executed a three-for-one stock split of its common stock effective July 1, 2015. The number of shares, exercise price and fair value price at grant date are adjusted to reflect the stock split.

The Assumptions Used to Measure Fair Value of Stock Options Granted for the Year Ended March 31, 2017

Resolved on September 15, 2016 (Granted on October 3, 2016)

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	38.91%
Estimated remaining outstanding period:	2.0 years
Estimated dividend:	¥15.42 per share
Interest rate with risk free:	(0.31)%

Notes: 1. Volatility of stock price is calculated based on the actual stock prices marked in the period from October 2014 to October 2016.

2. Estimated remaining outstanding period is a weighted average of the standard amount of stock option compensation corresponding to each position of the employees and directors, which are specified in the Stock Option Compensation Rule.

3. Estimated dividend is determined based on the actual dividend paid for the last one year.

4. For the risk free interest rate, the Company uses the average compound yield of long-term Japanese government bonds that are due within three months before and after the last day of the estimated remaining outstanding period.

Resolved on September 15, 2016 (Granted on October 3, 2016)

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	31.45%
Estimated remaining outstanding period:	6.5 years
Estimated dividend:	¥15.42 per share
Interest rate with risk free:	(0.25)%

Notes: 1. Volatility of stock price is calculated based on the actual stock prices marked in the period from April 2010 to October 2016.

2. Estimated remaining outstanding period is the period from the start of estimation to the middle date of the exercise period.

3. Estimated dividend is determined based on the actual dividend paid for the last one year.

4. For the risk free interest rate, the Company uses the average compound yield of long-term Japanese government bonds that are due within three months before and after the last day of the estimated remaining outstanding period.

The Assumptions Used to Measure the Number of Vested Stock Options

The Company uses only actual cancellations due to the difficulty in determining a reasonable assumption for measuring the number of future cancellations.

10. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes, which in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.9% for the year ended March 31, 2017 and approximately 33.1% for the year ended March 31, 2016. However, due to the tax reform in March 2016, the normal effective statutory tax rate varies in accordance with the years in which the temporary differences will be realized.

For the year ended March 31, 2018: 30.9%
For the years ending March 31, 2019 and after: 30.6%

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

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Current deferred tax assets:			
Devaluation of inventories	**¥ 977**	¥ 859	**$ 8,710**
Accrued enterprise tax	**200**	206	**1,785**
Provision for bonuses	**588**	622	**5,241**
Unrealized income	**455**	282	**4,058**
Other—net	**794**	667	**7,074**
Subtotal	**3,014**	2,636	**26,868**
Valuation allowance		(22)	
Current deferred tax assets	**3,014**	2,614	**26,868**
Current deferred tax liabilities:			
Other—net	**(4)**	(10)	**(37)**
Current deferred tax liabilities	**(4)**	(10)	**(37)**
Net current deferred tax assets	**¥3,010**	¥ 2,604	**$26,831**
Non current deferred tax assets:			
Liabilities for retirement benefits	**¥1,329**	¥ 1,183	**$11,844**
Depreciation	**303**	245	**2,698**
Tax losses carried forward	**1,211**	1,967	**10,796**
Other—net	**699**	704	**6,235**
Subtotal	**3,542**	4,099	**31,573**
Valuation allowance	**(809)**	(1,838)	**(7,214)**
Non current deferred tax assets	**2,733**	2,261	**24,359**
Non current deferred tax liabilities:			
Reserve for advanced depreciation of property, plant and equipment	**(90)**	(94)	**(801)**
Valuation of intangible assets	**(2,507)**	(3,009)	**(22,344)**
Other—net	**(879)**	(733)	**(7,840)**
Non current deferred tax liabilities	**(3,476)**	(3,836)	**(30,985)**
Net non current deferred tax assets	**¥ (743)**	¥(1,575)	**$ (6,626)**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the years ended March 31, 2017 and 2016 is not presented because the differences in amounts between them were less than 5% of the statutory tax rate.

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,743 million ($15,539 thousand), ¥1,336 million and ¥782 million for the years ended March 31, 2017, 2016 and 2015, respectively.

12. LEASES

The Group leases certain machinery, computer and telecommunication equipment, office space and other assets.

Total rental expense for the years ended March 31, 2017, 2016 and 2015 was ¥4,146 million ($36,956 thousand), ¥3,494 million and ¥3,169 million, respectively.

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

	Millions of Yen	Thousands of U.S. Dollars
	2017	**2017**
Due within one year	**¥438**	**$3,901**
Due after one year	**505**	**4,502**
Total	**¥943**	**$8,403**

13. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group policy for financial instruments

The Group conducts planning and selling in its parts business, which consists of “FA,” “Die Components,” and “VONA.” The capital investment plan for ongoing business is principally financed by the Group’s funds. Temporary excess funds are operated by highly rated financial assets and it is our policy not to enter into derivative transactions for speculative purposes. Derivative transactions are only utilized to hedge foreign currency exchange rate fluctuation risk.

(2) Nature and extent of risks arising from financial instruments

Operating receivables such as trade notes and trade accounts are exposed to credit risk. Operating payables such as trade notes and accounts are due within one year. The Group operates its business globally and has receivables and payables denominated in foreign currencies that are exposed to foreign currency exchange rate fluctuation risk. The Group utilizes foreign currency forward contracts to hedge foreign currency exchange rate fluctuation risk of the net amount of receivables and payables denominated in foreign currencies.

(3) Risk management for financial instruments

(a) Credit risk (risk of default by the counter parties) management

The Group follows sales management rules and the sales management department monitors customers’ credit conditions periodically and manages the due date and balance of each customer. The Group keeps track of any adverse financial conditions of our customers at an early stage to mitigate risk from bad debts. The Group enters into derivative transactions only with highly rated financial institutions to mitigate credit risk and the Company evaluated that there is no material credit risk. The maximum credit risk as of March 31, 2017 is represented by financial assets, which are exposed to credit risk on the balance sheet.

(b) Market risk (risk of foreign currency fluctuations and interest) management

Regarding the operating receivables and operating payables denominated in foreign currencies, the Group principally utilizes foreign currency forward contracts to hedge foreign currency fluctuation risk, which are monitored by each currency. Regarding marketable securities and investment securities, the Group regularly reviews the fair value and issuers’ financial condition and readjusts the Group’s portfolio on an ongoing basis. For derivative transactions, the Group currently deals in foreign currency forward contracts only. The purpose of derivative transactions is limited to hedging actual demand of receivables and payables denominated in foreign currencies. The Group manages derivative risk by mutual supervision and review within the finance department.

(c) Liquidity risk (risk of default in payment at the due dates) management

The finance department prepares and updates its cash management plan periodically based on the reports from each department and calculates the necessary amount on hand. The Group manages liquidity risk by maintaining the amount calculated by the finance department.

(4) Fair value of financial instruments

Fair values of financial instruments are based on the market price and the value fluctuates according to the market. The contract amount regarding derivative transactions described in Note 14. DERIVATIVES does not indicate market risk related to derivative transactions.

(a) Fair value of financial instruments

Carrying amount on the consolidated balance sheet, fair value and the differences between them for financial instruments as of March 31, 2017 and 2016 are as follows:

	Millions of Yen		
	2017		
	Carrying Amount	Fair Value	Difference
Cash and cash equivalents	**¥ 47,841**	**¥ 47,841**	
Time deposits	**15,339**	**15,339**	
Trade notes receivable	**9,563**	**9,563**	
Trade accounts receivable	**48,285**	**48,285**	
Investment securities			
Trade notes payable and accounts payable	**(16,974)**	**(16,974)**	
Convertible bonds	**(10,389)**	**(15,492)**	**¥ 5,103**
Derivatives, net	**(1,739)**	**(1,739)**	

	Millions of Yen		
	2016		
	Carrying Amount	Fair Value	Difference
Cash and cash equivalents	¥ 39,205	¥ 39,205	
Time deposits	13,687	13,687	
Trade notes receivable	8,545	8,545	
Trade accounts receivable	40,828	40,828	
Investment securities	22	22	
Trade notes payable and accounts payable	(14,414)	(14,414)	
Convertible bonds	(11,268)	(14,065)	¥ 2,797
Derivatives, net	1,776	1,776	

	Thousands of U.S. Dollars		
	2017		
	Carrying Amount	Fair Value	Difference
Cash and cash equivalents	**$426,427**	**$426,427**	
Time deposits	**136,724**	**136,724**	
Trade notes receivable	**85,241**	**85,241**	
Trade accounts receivable	**430,382**	**430,382**	
Investment securities			
Trade notes payable and accounts payable	**(151,299)**	**(151,299)**	
Convertible bonds	**(92,600)**	**(138,090)**	**$45,490**
Derivatives, net	**(15,501)**	**(15,501)**	

Financial instruments for which fair value cannot be reliably determined are excluded from the table above.

Valuation methods of the fair value of financial instruments and information on marketable securities and derivatives are as follows:

Cash and cash equivalents, and time deposits
The carrying values of cash and cash equivalents, and time deposits approximate fair value because of their short maturities.

Trade notes receivable and trade accounts receivable
The carrying values of trade notes receivable and trade accounts receivable approximate fair value because of their short maturities.

Investment securities
Fair value of investment securities is based on the price at stock markets.

Trade notes payable and accounts payable
The carrying values of trade notes payable and trade accounts payable approximate fair value because of their short maturities.

Convertible bonds
Fair value is based on the price presented by counterparty financial institutions.

Derivatives
Please refer to Note 14. DERIVATIVES.

(b) Financial instruments whose fair value cannot be reliably determined as of March 31, 2017 and 2016

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Unlisted stocks	**¥6**	¥6	**$55**

(5) Maturity analysis for financial assets subsequent to March 31, 2017 and 2016

	Millions of yen			
	2017			
	Due in One Year or Less	Due after One Year Through Five Years	Due after Five Years Through Ten Years	Due After Ten Years
Cash and cash equivalents	**¥ 47,841**			
Time deposits	**15,339**			
Trade notes receivable	**9,563**			
Trade accounts receivable	**48,285**			
Total	**¥ 121,028**			

	Millions of yen			
	2016			
	Due in One Year or Less	Due after One Year Through Five Years	Due after Five Years Through Ten Years	Due After Ten Years
Cash and cash equivalents	¥ 39,205			
Time deposits	13,687			
Trade notes receivable	8,545			
Trade accounts receivable	40,828			
Total	¥ 102,265			

	Thousands of U.S. Dollars			
	2017			
	Due in One Year or Less	Due after One Year Through Five Years	Due after Five Years Through Ten Years	Due After Ten Years
Cash and cash equivalents	**$ 426,427**			
Time deposits	**136,724**			
Trade notes receivable	**85,241**			
Trade accounts receivable	**430,382**			
Total	**$1,078,774**			

(6) The redemption amounts of bonds subsequent to March 31, 2017 and 2016

	Millions of yen			
	2017			
	Due in One Year or Less	Due after One Year Through Five Years	Due after Five Years Through Ten Years	Due After Ten Years
Convertible bonds		**¥10,389**		

	Millions of yen			
	2016			
	Due in One Year or Less	Due after One Year Through Five Years	Due after Five Years Through Ten Years	Due After Ten Years
Convertible bonds		¥11,268		

	Thousands of U.S. Dollars			
	2017			
	Due in One Year or Less	Due after One Year Through Five Years	Due after Five Years Through Ten Years	Due After Ten Years
Convertible bonds		**$92,600**		

14. DERIVATIVES

Derivative transactions to which hedge accounting is not applied at March 31, 2017 and 2016 are as follows:

	2017			
	Millions of Yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain /Loss
Foreign currency forward contracts:				
Buying	**¥ 6,465**		**¥ (101)**	**¥ (101)**
Selling	**¥ 19,703**		**¥ (1,638)**	**¥ (1,638)**

	2016			
	Millions of Yen			
	Contract Amount	Contrac Amount Due after One Year	Fair Value	Unrealized Gain /Loss
Foreign currency forward contracts:				
Buying	¥ 6,492		¥ (4)	¥ (4)
Selling	¥ 26,653		¥ 1,780	¥ 1,780

	2017			
	Thousands of U.S. Dollars			
	Contract Amount	Contrac Amount Due after One Year	Fair Value	Unrealized Gain /Loss
Foreign currency forward contracts:				
Buying	**$ 57,624**		**$ (905)**	**$ (905)**
Selling	**$175,620**		**$(14,596)**	**$(14,596)**

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

15. COMPREHENSIVE INCOME

Reclassifications and income from tax effects attributable to other comprehensive income for the years ended March 31, 2017, 2016 and 2015 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2017	2016	2015	**2017**
Unrealized gain (loss) on available-for-sale securities:				
Gains (losses) arising during the year	**¥ (3)**	¥ (22)	¥ (5)	**$ (24)**
Reclassification adjustments to profit or loss	**15**			**132**
Amount before income tax effect	**12**	(22)	(5)	**108**
Income tax effect	**(6)**	8	1	**(54)**
Total	**6**	(14)	(4)	**54**
Foreign currency translation adjustments:				
Adjustments arising during the year	**(2,226)**	(4,083)	4,305	**(19,836)**
Reclassification adjustments to profit or loss		(110)		
Amount before income tax effect	**(2,226)**	(4,193)	4,305	**(19,836)**
Income tax effect				
Total	**(2,226)**	(4,193)	4,305	**(19,836)**
Defined retirement benefit plans:				
Adjustments arising during the year	**(5)**	(68)	3	**(46)**
Reclassification adjustments to profit and loss	**28**	25	19	**250**
Amount before income tax effect	**23**	(43)	22	**204**
Income tax effect	**(8)**	15	(10)	**(74)**
Total	**15**	(28)	12	**130**
Share of other comprehensive income in associates				
Adjustments arising during the year	**(11)**	(4)	5	**(101)**
Total other comprehensive income	**¥(2,216)**	¥(4,239)	¥4,318	**$(19,753)**

16. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS"), for the years ended March 31, 2017, 2016 and 2015 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year ended March 31, 2017	Net Income Attributable to Owners of the Parent	Weighted-average Shares	EPS	
Basic EPS—				
Net income available to common shareholders	**¥18,387**	**274,692**	**¥66.94**	**$0.60**
Effect of dilutive securities—				
Stock options		**870**		
Convertible bonds	**(32)**	**8,157**		
Diluted EPS—				
Net income for computation	**¥18,355**	**283,719**	**¥64.70**	**$0.58**
Year ended March 31, 2016				
Basic EPS—				
Net income available to common shareholders	¥16,908	274,250	¥61.65	
Effect of dilutive securities—				
Stock options		781		
Convertible bonds	(501)	8,157		
Diluted EPS—				
Net income for computation	¥16,407	283,188	¥57.94	

Year ended March 31, 2015			
Basic EPS—			
Net income available to common shareholders	¥14,292	273,390	¥52.28
Effect of dilutive securities—			
Stock options		899	
Diluted EPS—			
Net income for computation	¥14,292	274,289	¥52.10

(Note) The Company executed a three-for-one stock split of its common stock effective July 1, 2015. The amounts of basic net income per share and diluted net income per share are calculated on the assumption that the stock split had been conducted on April 1, 2014.

17. RELATED PARTY TRANSACTIONS

Related party transactions between the Company and related parties for the years ended March 31, 2017 and 2016 were as follows:

2017

Category	Name	Occupation	Ownership (Owned) Percentage (%)	Details of Transaction	Amount Millions of Yen	Amount Thousands of U.S. Dollars
Board member	Ryusei Ono	Director of the Company	(Owned) Direct 0.09	Exercise of stock option (Note)	**¥137**	**$1,220**
Board member	Masahiko Eguchi	Director of the Company	(Owned) Direct 0.05	Exercise of stock option (Note)	**24**	**213**
Board member	Tokuya Ikeguchi	Director of the Company	(Owned) Direct 0.04	Exercise of stock option (Note)	**25**	**219**

(Note) Decision policy on terms and conditions
Exercise of stock option is based on the contracts when vested.

2016

Category	Name	Occupation	Ownership (Owned) Percentage (%)	Details of Transaction	Amount Millions of Yen
Board member	Ryusei Ono	Director of the Company	(Owned) Direct 0.06	Exercise of stock option (Note)	¥53
Board member	Masahiko Eguchi	Director of the Company	(Owned) Direct 0.05	Exercise of stock option (Note)	24
Board member	Tokuya Ikeguchi	Director of the Company	(Owned) Direct 0.03	Exercise of stock option (Note)	47

(Note) Decision policy on terms and conditions
Exercise of stock option is based on the contracts when vested.

18. CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31, 2017, 2016 and 2015, the difference between exchange receipts and payments from loans to foreign subsidiaries of ¥2,915 million ($25,983 thousand), ¥(2,250) million and ¥(1,798) million, respectively, are included in “Other-net” of INVESTING ACTIVITIES.

19. SUBSEQUENT EVENT

(1) Cash Dividends

The following appropriations of retained earnings at March 31, 2017 were approved at the shareholders meeting held on June 15, 2017:

	Millions of Yen	Thousands of U.S. Dollars
Year end cash dividends, ¥9.10 ($0.08) per share	**¥2,508**	**$22,351**

(2) Execution of stock acquisition rights of convertible bonds

U.S.$100,000,000 Zero Coupon Convertible Bonds due 2018 issued by the Company in October 2013 were converted to new shares through exercise of rights after the end of the fiscal year ended March 31, 2017 until June 21, 2017. The outline of the conversion is as follows.

Reduction in the convertible bonds	7,924 million yen ($70,626 thousand)
Increase in capital	3,962 million yen ($35,313 thousand)
Increase in capital reserve	3,962 million yen ($35,313 thousand)
Increase in the number of shares and their class	5,829,922 common shares

20. SEGMENT INFORMATION

(1) Description of reportable segments

Reportable segments are parts of the Group whose financial data can be obtained separately. The Board of Directors reviews the financial data periodically to evaluate earnings and determine how to allocate business resources.

The Group has operational headquarters for each product or service in MISUMI Corporation. Each operational headquarters plans overall strategies for both domestic and overseas markets and conducts business related to its own products or services. Accordingly, the Group comprises segments by product or service based on the operational headquarters, and there are 3 reportable segments: "FA Business," "Die Components Business" and "VONA Business."

"FA Business" develops and provides standard components that help streamline production and save labor costs in a production system such as factory automation as well as auto locating modules for high-precision production equipment. Various optics research and experimental equipment and components for production equipment, which change due to digitalization of electronic devices, are also developed and offered.

"Die Components Business" serves the automotive, electronics, and electrical machinery industries by developing and supplying standardized die components for metal press and plastic injection molding applications and precision die components.

"VONA Business" provides third-party brands alongside original MISUMI-branded products mainly through online sales. It provides indirect materials or MRO (consumables) as well as production equipment.

(2) Method of measurement for the amounts of sales and profit (loss) for each reportable segment

Accounting policies of the reportable segments are substantially the same as those described in Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, except for the adjustments due to different closing dates. Income by reportable segment is based on operating income.

(3) Net sales and Segment profit by reportable segment

	Millions of Yen					
	2017					
	Reportable Segments					
	FA Business	Die Components Business	VONA Business	Total	Adjustments	Consolidated
Net sales:						
Sales to customers	**¥84,669**	**¥69,798**	**¥104,549**	**¥259,016**		**¥259,016**
Total	**84,669**	**69,798**	**104,549**	**259,016**		**259,016**
Segment profit	**14,418**	**3,097**	**9,950**	**27,465**	**¥ (338)**	**27,127**
Segment profit before amortization of goodwill*	**¥14,418**	**¥ 5,392**	**¥ 9,950**	**¥ 29,760**	**¥ (338)**	**¥ 29,422**

* Amortization of goodwill and other intangible assets related to the acquisition of Dayton Lamina Corporation was added back to Segment profit.

	Millions of Yen					
	2016					
	Reportable Segments					
	FA Business	Die Components Business	VONA Business	Total	Adjustments	Consolidated
Net sales:						
Sales to customers	¥76,370	¥69,732	¥93,758	¥239,860	¥ 280	¥240,140
Total	76,370	69,732	93,758	239,860	280	240,140
Segment profit	12,160	3,464	10,249	25,873	(182)	25,691
Segment profit before amortization of goodwill*	¥12,160	¥ 6,002	¥10,249	¥ 28,411	¥(182)	¥ 28,229

* Amortization of goodwill and other intangible assets related to the acquisition of Dayton Lamina Corporation was added back to Segment profit.

	Thousands of U.S. Dollars					
	2017					
	Reportable Segments					
	FA Business	Die Components Business	VONA Business	Total	Adjustments	Consolidated
Net sales:						
Sales to customers	**$754,696**	**$622,139**	**$931,887**	**$2,308,722**		**$2,308,722**
Total	**754,696**	**622,139**	**931,887**	**2,308,722**		**2,308,722**
Segment profit	**128,511**	**27,609**	**88,692**	**244,812**	**$ (3,015)**	**241,797**
Segment profit before amortization of goodwill*	**$128,511**	**$ 48,058**	**$ 88,692**	**$ 265,261**	**$ (3,015)**	**$ 262,246**

* Amortization of goodwill and other intangible assets related to the acquisition of Dayton Lamina Corporation was added back to Segment profit.

(4) Details of adjustments

	Net sales		
	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Total of reportable segment	**¥259,016**	¥239,860	**$2,308,722**
Adjustments due to the different closing date of consolidated subsidiaries		(709)	
Other		989	
Net sales in consolidated statement of income	**¥259,016**	¥240,140	**$2,308,722**

	Operating income		
	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Total of reportable segment	**¥ 27,465**	¥ 25,873	**$ 244,812**
Adjustments due to the different closing date of consolidated subsidiaries		(257)	
Other	**(338)**	75	**(3,015)**
Operating income in consolidated statement of income	**¥ 27,127**	¥ 25,691	**$ 241,797**

(5) Change in reportable segment

Following changes in the Group's organizational management structure, from the year ended March 31, 2017, a portion of "FA Business" was transferred to "VONA Business."

Net sales and segment profit by reportable segment for the year ended March 31, 2016 have been re-categorized under the new classification.

Segment information for the year ended March 31, 2015 prepared in accordance with the method of classification for the year ended March 31, 2017 is omitted since it is difficult in practice to retrospectively extract the financial information in the year ended March 31, 2015. Likewise, segment information for the years ended March 31, 2017 and 2016 prepared in accordance with the method of classification for the year ended March 31, 2015 is omitted since it is difficult in practice to extract the necessary financial information.

(6) Information by region

	Millions of Yen						
	2017						
	Japan	China	Asia	America	Europe	Others	Total
Net Sales	**¥ 140,302**	**¥ 43,402**	**¥ 32,638**	**¥ 25,795**	**¥ 12,588**	**¥ 4,291**	**¥ 259,016**

	Millions of Yen						
	2016						
	Japan	China	Asia	America	Europe	Others	Total
Net Sales	¥ 128,939	¥ 38,567	¥ 28,825	¥ 27,129	¥ 12,116	¥ 4,564	¥ 240,140

	Thousands of U.S. Dollars						
	2017						
	Japan	China	Asia	America	Europe	Others	Total
Net Sales	**$1,250,574**	**$386,858**	**$290,914**	**$229,921**	**$112,204**	**$38,251**	**$2,308,722**

	Millions of Yen					
	2017					
	Japan	China	Vietnam	America	Others	Total
Property, plant and equipment	**¥ 10,424**	**¥ 6,962**	**¥ 5,866**	**¥ 3,182**	**¥ 1,440**	**¥ 27,874**

	2016					
	Japan	China	Vietnam	America	Others	Total
Property, plant and equipment..................	¥ 10,058	¥ 8,040	¥ 6,700	¥ 2,973	¥ 1,410	¥ 29,181

	Thousands of U.S. Dollars					
	2017					
	Japan	China	Vietnam	America	Others	Total
Property, plant and equipment..................	**$ 92,912**	**$ 62,052**	**$ 52,291**	**$ 28,366**	**$12,835**	**$248,456**

(7) Impairment losses by reportable segment

There are no applicable matters for the years ended March 31, 2017 and 2016.

	Millions of Yen		
	2015		
	Reportable Segment		
	FA Business	Company-wide	Total
Impairment loss...	¥259	¥150	¥409

(8) Goodwill by reportable segment

	Millions of Yen	
	2017	
	Reportable Segment	
	Die Components Business	Total
Amortization for the year ended March 31, 2017	**¥ 1,707**	**¥ 1,707**
Balance as of March 31, 2017	**¥ 1,012**	**¥ 1,012**

	Millions of Yen	
	2016	
	Reportable Segment	
	Die Components Business	Total
Amortization for the year ended March 31, 2016	¥ 1,893	¥ 1,893
Balance as of March 31, 2016	¥ 3,457	¥ 3,457

	Thousands of U.S. Dollars	
	2017	
	Reportable Segment	
	Die Components Business	Total
Amortization for the year ended March 31, 2017	**$15,216**	**$15,216**
Balance as of March 31, 2017	**$ 9,019**	**$ 9,019**

Independent Auditors' Report

Deloitte.

Deloitte Touche Tohmatsu
Shinagawa Intercity Tower C,
2-15-3 Konan, Minato-ku,
Tokyo 108-6221, Japan

Tel: +81 (3) 6720 8200
Fax: +81 (3) 6720 8205

www.deloitte.com/jp

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
MISUMI Group Inc.:

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu LLC

June 23, 2017

Company Profile and Stock Information (As of March 31, 2017)

Corporate profile

Corporate name	MISUMI Group Inc.
Established	February 23, 1963
Head office	Iidabashi First Building, 5-1, Koraku 2-chome, Bunkyo-ku, Tokyo 112-8583, Japan
Common stock	7,593 million yen
Stock listing	Tokyo Stock Exchange (Ticker code: 9962)
Fiscal year	From April 1 through March 31 of the following calendar year
General shareholders' meeting	Generally held in June
Description of business	Development of Group management strategies, administration,and all functions related to Group management
URL	http://www.misumi.co.jp/english/

Stock information

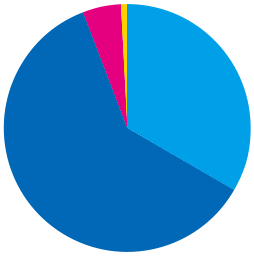
Authorized number of shares	1,020,000,000 shares
Issued number of shares	275,689,140 shares
Number of shareholders	4,933

Major shareholders

Name of shareholder	Number of shares held (thousands)	Percentage of shares outstanding (%)
Japan Trustee Services Bank, Ltd.	44,279	16.07
The Master Trust Bank of Japan, Ltd.	22,309	8.10
STATE STREET BANK AND TRUST COMPANY	11,567	4.20
Trust & Custody Services Bank, Ltd.(as trustee for Mizuho Bank Ltd. Retirement Benefit Trusts Account re-entrusted by Mizuho Trust and Banking Co., Ltd.)	10,678	3.88
MSCO CUSTOMER SECURITIES	7,614	2.76
GOLDMAN,SACHS&CO.REG	6,396	2.32
STATE STREET BANK AND TRUST COMPANY 505223	6,112	2.22
THE BANK OF NEW YORK MELLON 140044	5,993	2.17
Hiroshi Taguchi	5,930	2.15
Trust & Custody Services Bank, Ltd.	4,729	1.72

*Percentages of shares owned are rounded off after the second decimal place.

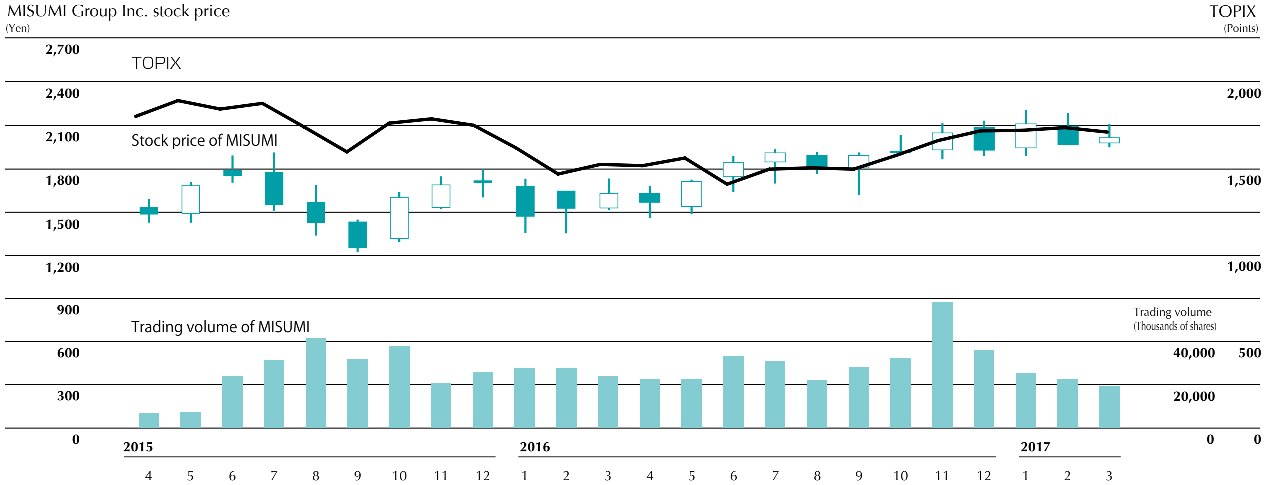
Composition of shareholders



Stock splits

May	1994	1	➡	1.2
May	1995	1	➡	1.1
May	1996	1	➡	1.1
November	1997	1	➡	1.1
May	2000	1	➡	1.1
August	2001	1	➡	1.1
May	2004	1	➡	1.5
April	2006	1	➡	2.0
July	2015	1	➡	3.0

Monthly share price range/Trading volume



Please direct any inquiries to : MISUMI Group Inc. Corporate Relation Department Tel: +81-3-5805-7037 email: cc@misumi.co.jp

MiSUMi

Industrial Supply Commerce