

HISAKA

Shareholder newsletter

2016

From April 1, 2015
to March 31, 2016

 **HISAKA WORKS, LTD.**

To our shareholders



The global economy remained uncertain during the fiscal year under review. Although a favorable employment environment and solid consumer spending enabled the U.S. economy to drive the global economy, slower economic growth in China and cheap crude oil had a negative effect on oil-producing countries in the Middle East and emerging economies.

The Japanese economy gradually recovered in the first half of the fiscal year on the back of a recovery in the earnings of large companies in particular, improvements in the employment environment, and higher demand for capital investment. However, the yen strengthened and share prices stalled from the start of 2016, which hurt economic sentiment.

In this environment, the HISAKA Group focused on attracting domestic demand for capital investment and filling orders for overseas plants. We also proactively invested in setting up sales channels in Japan and overseas in line with the

growth strategies laid out in our medium-term management plan “G-14.”

As a result of these efforts, although large orders in the Valve Division and the Other segment fell, the HISAKA Group’s orders from the marine, machinery and metals, and power generation sectors increased in the Heat Exchanger Division, and we also brought in large orders for medical sterilizing equipment in the Vital Industry Division. As a result, net orders received were up 1.5% from the previous fiscal year to ¥25,770 million.

The substantial order backlog for large projects and others in the Heat Exchanger Division and revenue gains in the Valve Division compensated for lower revenue in the Other segment. As a result, net sales were up 4.1% from the previous fiscal year to ¥25,393 million.

Although the weak yen enhanced our competitiveness and measures to raise productivity succeeded in reducing the cost of sales, we also faced harsh price competition, large overseas projects taken on despite their low profitability as part of our sales strategy, and sluggish growth for subsidiary business operations. As a result, operating income was down 11.7% from the previous fiscal year to ¥1,184 million and ordinary income dropped 16.3% to ¥1,532 million. Profit attributable to owners of parent was up 104.6% to ¥2,688 million. This occurred because, although amortization of goodwill was recorded in a lump sum and impairment losses were recognized, gain on sales of securities far exceeded these amounts.

In the fiscal year ending March 31, 2017, we expect ¥24,600 million in net sales, ¥1,320 million in operating income, ¥1,620 million in ordinary income, and ¥2,090 million in profit attributable to owners of parent.

We would like to ask for continued cooperation and support from all our shareholders.

June 2016 Yuichi Maeda, President

Earnings fluctuations

Highlight

Unit: Millions of yen

Fiscal year Category	FY2011 (fiscal year ended March 31, 2012)	FY2012 (fiscal year ended March 31, 2013)	FY2013 (fiscal year ended March 31, 2014)	FY2014 (fiscal year ended March 31, 2015)	FY2015 (fiscal year ended March 31, 2016)
Net orders received	24,404	22,953	23,082	25,391	25,770
Net sales	23,368	23,699	23,181	24,398	25,393
Operating income	2,262	2,259	1,757	1,342	1,184
Ordinary income	2,568	2,549	2,268	1,831	1,532
Profit attributable to owners of parent	1,395	1,721	1,480	1,313	2,688
Earnings per share (Yen)	43.04	54.62	48.50	44.01	90.04
Total assets	50,830	50,657	55,129	63,252	58,473
Net assets	41,612	43,164	45,985	50,963	47,191
Net assets per share (Yen)	1,305.43	1,398.02	1,539.75	1,706.50	1,580.27

Topics

Topics

Since October 2015, we have employed disabled persons who are active athletes to help realize an integrated society through support for disabled athletes. These athletes are engaged in company operations as industry-ready recruits, and we also support their competitive activities.



Anri Sakurai

Anri Sakurai
Two years as
a competitive athlete

Wheelchair fencing / Fleuret, Épée

Best 16 in World Cup in UAE (2015)
18th place in World Championships in Hungary (2015)
6th and 5th places in Asian Championships in Hong Kong (2016)



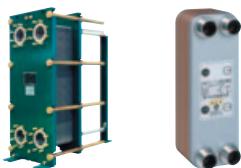
Tomotarou Nakamura

Men's swimming, 100 meter breast stroke

3rd place in Athens Paralympics (2004)
5th place in Beijing Paralympics (2008)
2nd place in London Paralympics (2012)

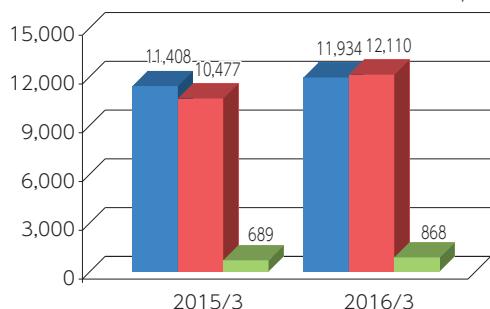
Tomotarou Nakamura
20 years as
a competitive athlete

Heat Exchanger Division



■ Orders received ■ Net sales ■ Segment profit

Unit: Millions of yen



Overseas, the Heat Exchanger Division secured orders for a fertilizer plant and a container ship, as well as large-scale parts orders. However, orders stalled in the second half of the year, in part due to sluggish economic growth in China and the impact of low crude oil prices. On the other hand, in Japan demand was solid for the marine, machinery and metals, and power generation sectors, and maintenance orders for the chemical and power generation sectors were also solid. As a result, net orders received increased 4.6% from the previous fiscal year to ¥11,934 million.

Higher sales of general-purpose machinery reflecting the strong order environment in Japan, as well as sales posted for large orders overseas resulted in net sales rising 15.6% from the previous fiscal year to ¥12,110 million.

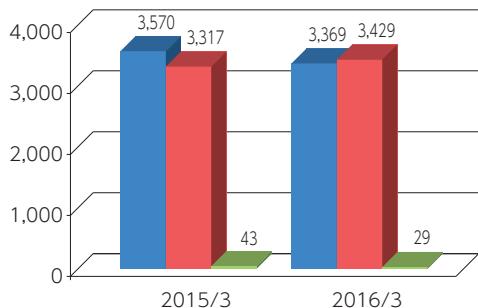
Despite sales for large overseas projects with low profitability, in addition to factors boosting sales, profitability improved due to higher productivity and lower cost of sales. As a result, segment profit was up 26.0% from the previous fiscal year to ¥868 million.

Valve Division



■ Orders received ■ Net sales ■ Segment profit

Unit: Millions of yen



Orders were strong due to facility repairs for the steel sector, but environment-related orders fell after a strong performance in the previous year and plant work in the petrochemical sector also declined. Due to these influences, net orders received were down 5.6% from the previous fiscal year to ¥3,369 million.

Net sales were up 3.4% from the previous fiscal year to ¥3,429 million as a result of higher sales in the steel sector and sales recognized for large projects in China and Indonesia.

Despite increased sales, harsh price competition over large projects, and low sales prices, segment profit was down 33.1% from the previous fiscal year to ¥29 million.

Vital Industry Division

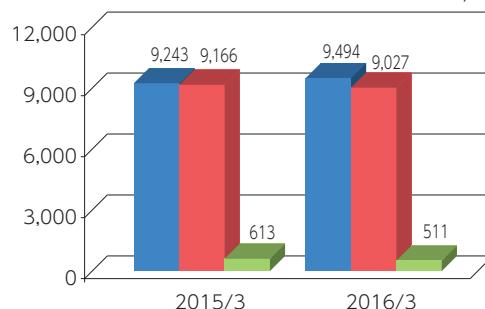
Orders for Dyeing & Finishing Machinery were down from the previous fiscal year due to slowing economic growth in China and the ASEAN region, in addition to a decrease in capital investments made by domestic companies. However, in Food Machinery, orders for retort automation plants and concentration equipment were strong, and in Pharmaceutical Machinery, we secured several large orders for sterilizing equipment for transfusions. As a result, net orders received were up 2.7% from the previous fiscal year to ¥9,494 million in the Vital Industry Division.

Despite higher sales for sterilizing equipment for transfusions in Pharmaceutical Machinery, net sales were down 1.5% from the previous fiscal year to ¥9,027 million due to the impact of lower orders in Dyeing & Finishing Machinery.

In addition to lower net sales, operating costs were up due to upfront investments. As a result, segment profit was ¥511 million, down 16.6% from the previous fiscal year.



■ Orders received ■ Net sales ■ Segment profit
Unit: Millions of yen



Other segment

The Other segment is comprised of subsidiary business operations in Japan and overseas and a power generation business.

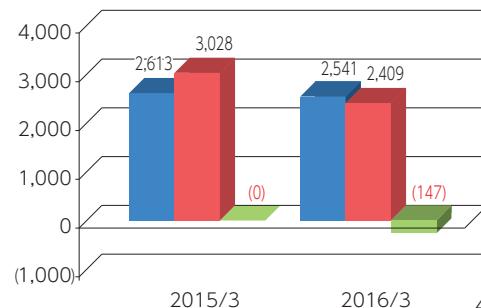
Although orders were relatively strong for the Malaysian subsidiary, they remained low at subsidiaries in China due to the slowing economy. In addition, there were few large orders at Japanese subsidiaries. Accordingly, net orders received were down 2.7% from the previous fiscal year to ¥2,541 million.

The balance of orders at the end of the previous fiscal year was low, and orders in the current fiscal year were weak. As a result, net sales were down 20.4% from the previous fiscal year to ¥2,409 million.

Losses were recognized in subsidiary operations in China, domestic subsidiary operations, and the power generation business, resulting in a ¥147 million segment loss, which was worse than in the previous fiscal year (¥0 million segment loss in the previous fiscal year).



■ Orders received ■ Net sales ■ Segment profit
Unit: Millions of yen



*Results by segment are the amounts before elimination of internal transactions.

Consolidated financial statements (summary)

Unit: Millions of yen

Items	As of March 31, 2015	As of March 31, 2016	Change	Year-on-year percentage change
Assets				
Current assets	25,254	29,642	4,388	117.4%
Cash and deposits	9,237	12,183		
Notes and accounts receivable - trade	8,628	10,008		
Inventories	4,751	4,310		
Others	2,637	3,139		
Non-current assets	37,998	28,831	(9,167)	75.9%
Property, plant and equipment	12,019	11,521		
Intangible assets	275	295		
Investments and other assets	25,703	17,013		
Total assets	63,252	58,473	(4,778)	92.4%
Liabilities				
Current liabilities	7,822	9,416		
Non-current liabilities	4,466	1,865		
Total liabilities	12,289	11,282	(1,007)	91.8%
Net assets				
Shareholders' equity	41,046	43,191	2,145	105.2%
Capital stock	4,150	4,150		
Capital surplus	8,814	8,814		
Retained earnings	30,488	32,634		
Treasury shares	(2,406)	(2,406)		
Accumulated other comprehensive income	9,903	3,988	(5,914)	40.3%
Non-controlling interests	13	11	(2)	80.9%
Total net assets	50,963	47,191	(3,771)	92.6%
Total liabilities and net assets	63,252	58,473	(4,778)	92.4%

Unit: Millions of yen

Items	As of March 31, 2015	As of March 31, 2016	Change	Year-on-year percentage change
Net sales	24,398	25,393	995	104.1%
Cost of sales	19,453	20,105		
Gross profit	4,944	5,287	342	106.9%
Selling, general and administrative expenses	3,602	4,102		
Operating income	1,342	1,184	(157)	88.3%
Non-operating income	510	364		
Non-operating expenses	21	17		
Ordinary income	1,831	1,532	(299)	83.7%
Extraordinary income	169	4,108		
Extraordinary losses	9	1,137		
Profit before income taxes	1,991	4,503	2,511	226.1%
Profit attributable to owners of parent	1,313	2,688	1,374	204.6%



Consolidated
balance
sheets



Consolidated
statements
of income

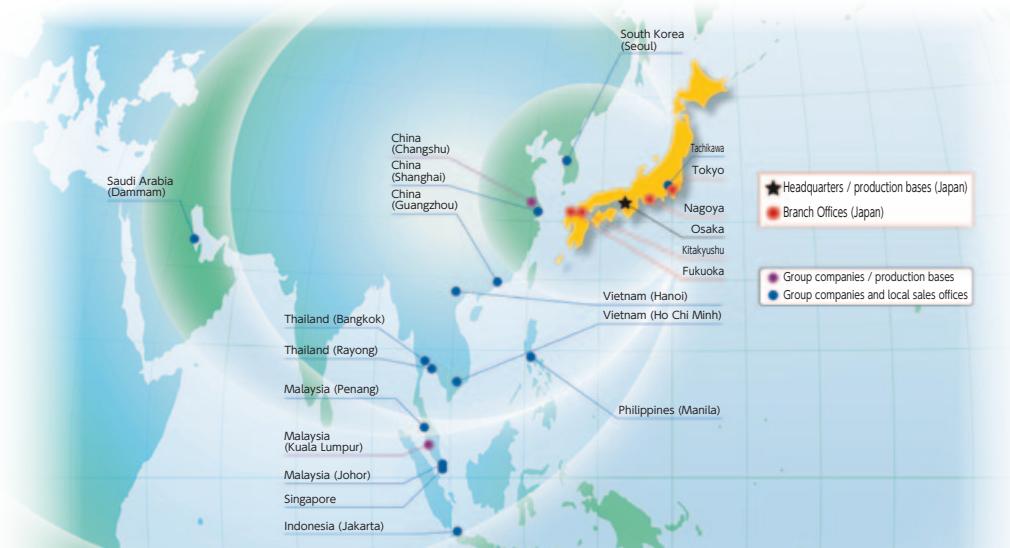
Company overview (as of March 31, 2016)

Company name: HISAKA WORKS, LTD.
 Established: May 5, 1942
 Yuichi Maeda, President
 Capital stock: ¥4,150 million
 Total number of shares issued: 32,732,800
 Number of shareholders: 3,046
 Number of employees: 643 (Consolidated);
 503 (Non-consolidated)

Main offices and plant

- Head office:
2-12-7 Sonezaki, Kita-ku, Osaka City, Osaka
 - Tokyo Branch Office:
1-19-8 Kyobashi, Chuo-ku, Tokyo
 - Nagoya Branch Office:
1-12-17 Sakae, Naka-ku, Nagoya City, Aichi
 - Kyushu Branch Office:
1-15-20 Hakataekimae, Hakata-ku, Fukuoka City, Fukuoka
 - Kitakyushu Branch Office:
9-1 Konyamachi, Kokurakita-ku, Kitakyushu City, Fukuoka
 - Konoike Plant:
2-1-48 Higashi-konoike-cho, Higashi-Osaka City, Osaka
- Main subsidiaries
- MICROZERO CO., LTD. (Tachikawa City, Tokyo)
 - HISAKAWORKS S.E.A. SDN. BHD. (Malaysia)
 - HISAKA WORKS (CHINA) CO., LTD. (China)

Global network



Directors and Auditors (as of June 29, 2016)

President	Yuichi Maeda
Senior Executive Director	Junichi Nakamura
Executive Director	Hitoshi Iwamoto
Executive Director	Yoshikazu Takeshita
Director	Toshiyuki Funakoshi
Director	Tetsuya Inoue
Director	Koji Ohta
Director (Out side)	Tatsuji Tomiyasu
Director (Out side)	Sachie Kato
Auditor (Full-time)	Takuo Yamada
Auditor (Out side)	Hirofumi Miura
Auditor (Out side)	Akira Nakai

Accounting Auditor (as of June 29, 2016)

Grant Thornton Taiyo LLC

Stock status (as of March 31, 2016)

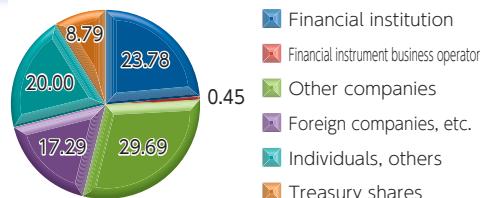
Stock

Total number of shares authorized: 129,020,000
Total number of shares issued: 32,732,800
Treasury shares: 2,876,926
Number of shareholders: 3,046

Major shareholders (Top 10)

Shareholder name	Number of shares held and shareholding ratio	
Nisshin Steel Co., Ltd.	2,903,264	8.86%
HISAKA WORKS, LTD.	2,876,926	8.78%
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,160,200	3.54%
Nippon Life Insurance Company	960,770	2.93%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	912,640	2.78%
INABA DENKI SANGYO CO., LTD.	910,802	2.78%
BBH BOSTON FOR NOMURA JAPAN SMALLER CAPITALIZATION FUND 620065	750,700	2.29%
JUNIPER	746,000	2.27%
Japan Trustee Services Bank, Ltd. (Trust Account)	711,200	2.17%
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	644,700	1.96%

Shareholding ratio by owner (%)



Shareholders' memo

Business year : April 1 to March 31 of the following year
Record date : March 31 for Annual General Meeting of Shareholders
March 31 for Year-end dividends
September 30 for Interim dividends
(Public notice shall be made in advance when other notices are necessary.)
Notice method : Electronic public notice (Company's website)
(However, should electronic public notices become unavailable in the event of a contingency or other unavoidable incident, all notices shall be posted in the *NIKKEI*.)
Website : <http://www.hisaka.co.jp/english/>
Annual general meeting of shareholders : June
Transfer agent and account management institution for special account : Mitsubishi UFJ Trust and Banking Corporation
Contact : Osaka Securities Agency Division, Mitsubishi UFJ Trust and Banking Corporation
3-6-3 Fushimimachi, Chuo-ku, Osaka City, Osaka 541-8502
Tel: 0120-094-777 (toll-free, from within Japan only)
Listed stock exchange : Securities code 6247, Section 1, Tokyo Stock Exchange

Notice

1. Please notify the account managers at the institution that holds your account (securities firm) regarding address changes or requests to sell or buy shares of less than one unit. Please direct inquiries to the securities firm that holds your account. Please note that the transfer agent (Mitsubishi UFJ Trust and Banking Corporation) cannot handle these matters.
2. Please inquire of the aforementioned account manager for special accounts (Mitsubishi UFJ Trust and Banking Corporation) regarding procedures for shares recorded in special accounts. These services are available at Mitsubishi UFJ Trust and Banking Corporation branches nationwide.
3. Dividends not yet received will be paid at Mitsubishi UFJ Trust and Banking Corporation branches nationwide.