

Hisaka Newsletter

The 89th Fiscal Year (Interim)

From April 1, 2017 to September 30, 2017



Jet Dyeing Machine "Circular"

BUSINESS REPORT

To our shareholders

The first half of our 89th fiscal year has ended, and we would like to provide an overview report on the six months.

During the first half of the fiscal year under review, in the medium-term management plan "G-17" (from the fiscal year ending March 31, 2018 to the fiscal year ending March 31, 2020), which began in April of this year, the Group formulated and implemented a new growth strategy, stating policies such as "providing value that exceeds customer expectations," "strengthening new products development capabilities and cultivating new markets," and "achieving sustainable profit by building a cost-competitive production system."

In terms of financial results, net orders received reflected our aggressive sales activities and steady economic trends to reach ¥13,794 million (year-on-year increase of 4.3%). Net sales increased to ¥13,128 million (11.7% increase) due to a revenue increase in the Process Engineering Division with the substantial order backlog, as well as significant increases in revenue in other businesses. In terms of profit, the effect of increased revenue and improved profitability has resulted in operating income reaching ¥782 million (86.5% increase). Ordinary income was ¥980 million (215.0% increase) due to the increase in operating income and the decrease in foreign exchange losses compared to the same period of the previous fiscal year, and profit attributable to owners of parent was ¥1,264 million (7.5% increase) due to the increase in ordinary income despite the decrease of extraordinary income on securities.

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



December 2017

Yoshikazu Takeshita, President

Results by segment

(*The amounts presented are the amounts before elimination of internal transactions.)

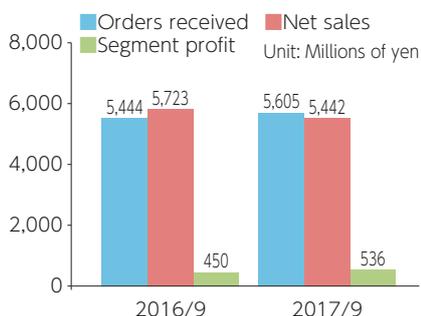
Heat Exchanger Division

The Heat Exchanger Division relates to the manufacture and sale of plate heat exchangers that heat and cool fluids and that are indispensable in a variety of industries.

Net orders received in this business have reached ¥5,605 million (year-on-year increase of 3.0%) as a result of factors such as strong orders received for mechanical industries, liquid crystal and semiconductor industries and small to medium general-purpose products for use in air conditioning, backed by the robust domestic economy.

Although small to medium general-purpose products with a short delivery period have contributed to the increase in sales, due to the reduction of the large-scale order backlog, net sales were ¥5,442 million (4.9% decrease).

Despite the increase in raw material prices, segment profit were ¥536 million (19.3% increase) due to the focusing on improving sales prices and enhancing maintenance.



Process Engineering Division

The Process Engineering Division relates to the manufacture and sale of sterilization equipment for retort food, etc., sterilization equipment for pharmaceutical products, and dyeing and finishing equipment for textile products, etc.

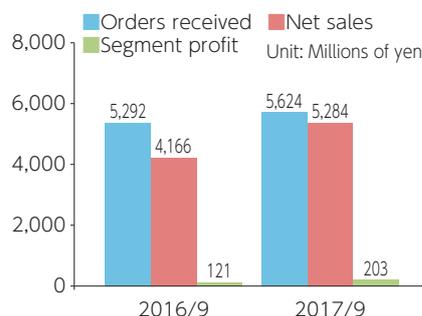
Although there was a decline in dyeing and finishing equipment which performed well during the same period of the previous fiscal year, net orders received in this business were ¥5,624 million (year-on-year increase of 6.3%), thanks to the orders received

for plants for food and beverage, sterilization equipment for pharmaceutical products, and preparation plants.

The significant backlog in food machinery and dyeing and finishing equipment has contributed to sales reaching ¥5,284 million (26.8% increase).

Segment profit was ¥203 million (68.1% increase), with the significant increase in revenue compared to the same period of the previous fiscal year absorbing the increase in expenses such as investments in the business foundation.

*The Vital Industry Division changed its name to the Process Engineering Division in April of this year.



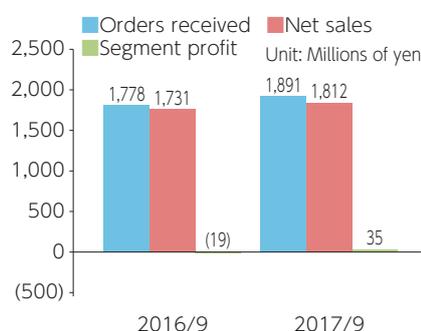
Valve Division

The Valve Division involves the manufacture and sale of ball valves, etc., which are used in various types of fluid control.

Net orders received in this division was ¥1,891 million (year-on-year increase of 6.4%), due to the winning of a major project for a domestic chemical manufacturer and the reduced delivery time of general-purpose products by eliminating the supplier issues that arose during the same period of the previous fiscal year, etc., as well as the increase in demand caused from the recovery in domestic capital investment.

The increase in demand has also contributed to net sales reaching ¥1,812 million (4.7% increase).

The increase in revenue and the effect of sales price improvement, etc. have resulted in segment profit reaching ¥35 million (segment loss of ¥19 million in the same period of the previous fiscal year).



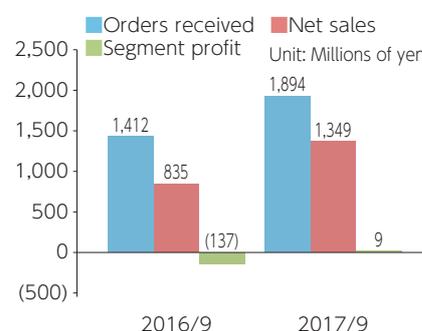
Other segment

The other segment is comprised of business operations by subsidiaries in Japan and overseas and a power generation business utilizing solar panels installed on the roof of the plants.

Although net orders received have decreased year-on-year at domestic subsidiaries, the winning of a large-scale dyeing and finishing equipment project at the Chinese subsidiary and the recovery of orders for heat exchangers for the Philippines and Indonesia at the Malaysian subsidiary have resulted in net orders received of ¥1,894 million (year-on-year increase of 34.1%).

Robust orders received have resulted in net sales increasing year-on-year at all subsidiaries, to an amount of ¥1,349 million (61.6% increase).

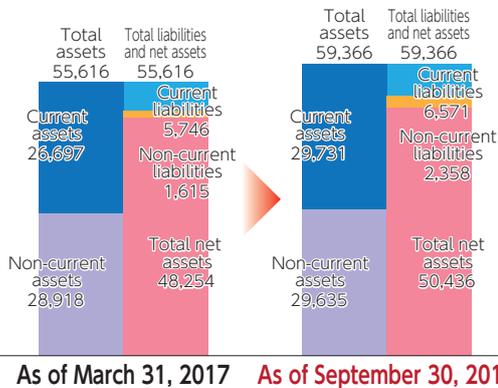
Segment profit was ¥9 million (segment loss of ¥137 million in the same period of the previous fiscal year) with Chinese subsidiary turning positive earnings due to the increase in sales.



Consolidated financial highlights

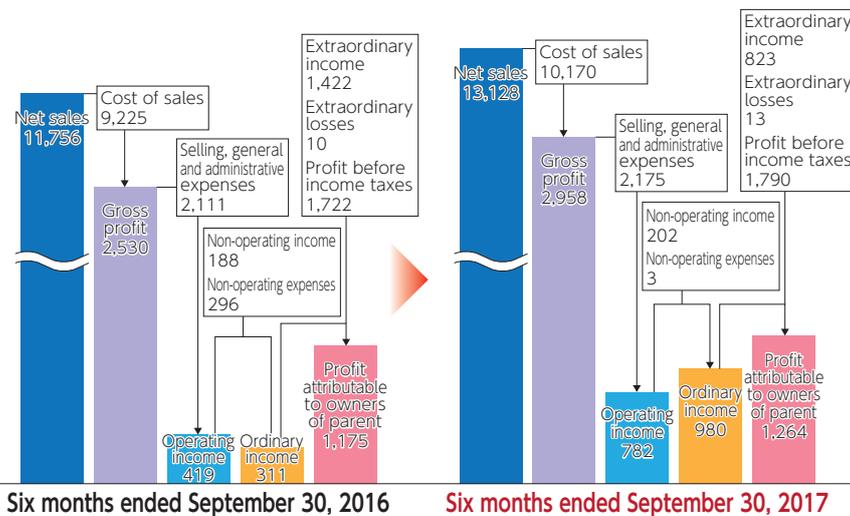
Summary of consolidated balance sheets

Unit: Millions of yen



Summary of consolidated statements of income

Unit: Millions of yen



Topics



Sales of dyeing and finishing equipment are strong in China

Sales of our dyeing and finishing equipment have been growing in China since last year.

In recent years the demand for medium- and high-grade quality products in the textile industry has been expanding throughout the world, including in China. In China, where global textile production is concentrated, there has been an increase in the production of medium- and high-grade quality products, and high-performance dyeing and finishing equipment for dyeing textiles is required.

The Company developed the world's first jet dyeing machine, named "Circular," in 1966. In addition to selling dyeing and finishing equipment throughout the world, we have improved their performance.

Furthermore, customers in China who have adopted our products have given high evaluation not only to the high performance of our products, but also to our stance of working together to resolve issues that arise before and after the dyeing process.

Moving forward, in addition to further improving machine performance and enhancing customer support with the aim of expanding sales, we will expand into other countries, with a focus on Southeast Asia.



The jet dyeing machine, "Circular," in operation at dyeing factories in China



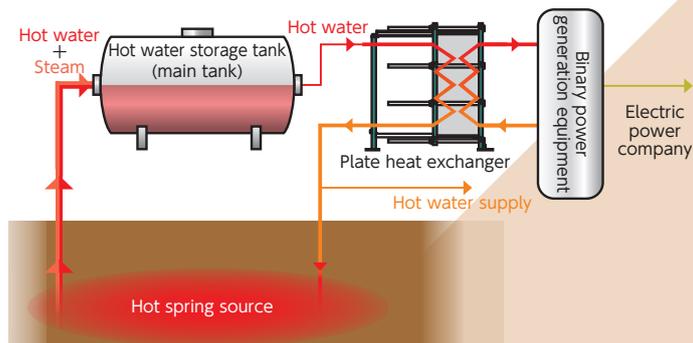
Installing heat exchangers to environmentally friendly power generation facilities

This March, we delivered plate heat exchangers (PHE) to the binary power station at Toyako Onsen (Hokkaido).

Binary power generation is a system of geothermal power generation, and is a power generation method in which low boiling point liquid is vaporized by hot spring water and steam to rotate the turbine. As it does not require large scale development and uses hot spring water and steam that have already been developed, it has a low environmental impact.

The Company has delivered PHE to binary power generation facilities in Japan since 2014, and occupies a very high share of the market. Many customers adopted our PHE due to our long experience in providing air conditioning and tap water system that uses hot spring water and steam to many hot spring facilities, etc.

In addition, the Company has been developing PHEs which are used for CO₂ capture storage (CCS) plant from factories, and is also making various energy saving proposals, etc., through the effective use of heat. We will continue to work with our customers towards reducing environmental impact.



Binary power generation System

Earnings fluctuations

(Reference) Unit: Millions of yen

Fiscal year / Category	FY 2015 Interim (six months ended September 30, 2015)	FY 2016 Interim (six months ended September 30, 2016)	FY 2017 Interim (six months ended September 30, 2017)	FY 2015 (fiscal year ended March 31, 2016)	FY 2016 (fiscal year ended March 31, 2017)
Net orders received	12,969	13,224	13,794	25,770	26,594
Net sales	12,779	11,756	13,128	25,393	25,023
Operating income	710	419	782	1,184	1,161
Ordinary income	819	311	980	1,532	1,374
Profit attributable to owners of parent	462	1,175	1,264	2,688	2,191
Earnings per share (Yen)	15.51	39.39	42.34	90.04	73.42
Total assets	59,777	53,531	59,366	58,473	55,616
Net assets	48,409	46,637	50,436	47,191	48,254
Net assets per share (Yen)	1,620.95	1,561.80	1,689.36	1,580.27	1,616.24

Company overview (as of September 30, 2017)

Company name: HISAKA WORKS, LTD.
 Established: May 5, 1942
 Capital stock: ¥4,150 million
 Number of employees: 685 (Consolidated) 537 (Non-consolidated)
 Head office: 2-12-7 Sonezaki, Kita-ku, Osaka City, Osaka
 Branch offices and plant: Tokyo Branch Office (Chuo-ku, Tokyo)
 Nagoya Branch Office (Nagoya City, Aichi)
 Kyushu Branch Office (Fukuoka City, Fukuoka)
 Kitakyushu Branch Office (Kitakyushu City, Fukuoka)
 Konoike Plant (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)

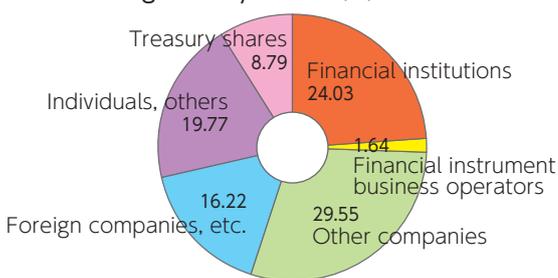
Directors and Audit & Supervisory Board Members

Chairman	Yuichi Maeda
President	Yoshikazu Takeshita
Senior Executive Director	Junichi Nakamura
Executive Director	Hitoshi Iwamoto
Director	Toshiyuki Funakoshi
Director	Tetsuya Inoue
Director	Koji Ohta
Director	Tadashi Iizuka
Director (Outside)	Sachie Kato
Director (Outside)	Hikaru Shimomoto
Auditor (Full-time)	Takuo Yamada
Auditor (Full-time)	Mitsugu Nakamichi
Auditor (Outside)	Hirofumi Miura
Auditor (Outside)	Akira Nakai

Stock status (as of September 30, 2017)

Total number of shares authorized: 129,020,000
 Total number of shares issued: 32,732,800
 Number of shareholders: 2,924

Shareholding ratio by owner (%)



Major shareholders (Top 10 largest)

Shareholder name	Number of shares held	Shareholding ratio
Nisshin Steel Co., Ltd.	2,903,264	8.86%
HISAKA WORKS, LTD.	2,877,232	8.79%
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,395,400	4.26%
BBH BOSTON FOR NOMURA JAPAN SMALLER CAPITALIZATION FUND 620065	1,055,700	3.22%
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%
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC)	886,100	2.70%
Japan Trustee Services Bank, Ltd. (Trust Account)	805,700	2.46%
TAKUMA CO., LTD.	642,000	1.96%

Shareholders' memo

Business year	April 1 to March 31 of the following year
Record date for year-end dividends	March 31
Record date for interim dividends	September 30
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	Section 1, Tokyo Stock Exchange
Notice method	Electronic public notice Public notice URL: http://www.hisaka.co.jp/english/ However, should electronic public notices become unavailable in the event of a contingency or other unavoidable incident, all notices shall be posted in <i>The NIKKEI</i> .

Notice

- 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.
- 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.
- Dividends not yet received will be paid at Mitsubishi UFJ Trust and Banking Corporation branches nationwide.