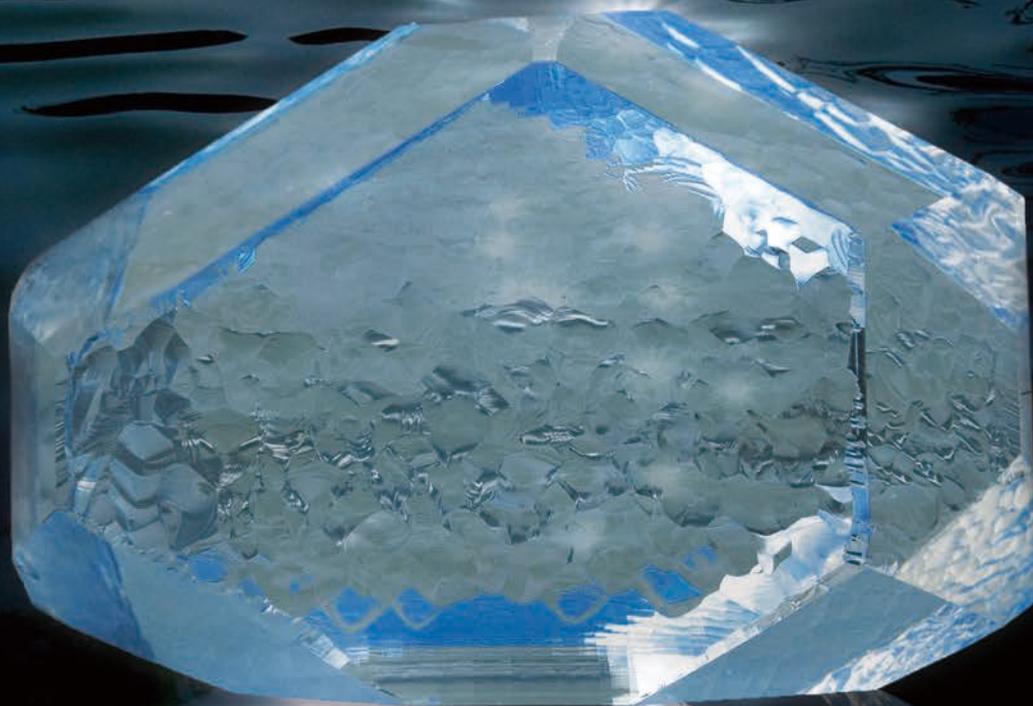


ANNUAL REPORT 2017

Report for the Fiscal Year Ended March 31, 2017

Ready for Takeoff



A LEADER IN THE FIELD OF QUARTZ CRYSTAL ELECTRONIC COMPONENTS

NIHON DEMPA KOGYO

NDK's REASONS FOR BEING

As a specialized manufacturer of devices for control, selection, and detection of frequencies, NDK aims to be a company that obtains the highest evaluation in the world in its business field from its customers and contribute to society.

Established in 1948 with the founding corporate philosophy of “contributing to the prosperity of society and world peace through our service to customers,” NDK is a specialized manufacturer of crystal devices.

Providing Reliability in All Products Equivalent to Automotive Products and Aiming for 100% Customer Satisfaction

NDK supplies all its products with the same or higher levels of reliability and quality required for automotive electronics products.



No. 1

**in Global Market Share
for Automotive
Electronics
Products**

**Network Spanning
the Globe**

**Factories: 7
Sales offices: 17**



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Forward-Looking Statements

Statements made in this report with respect to our current plans, estimates, strategies, and beliefs and other statements that are not historical facts are forward-looking statements about our future performance. These statements are based on management's assumptions and beliefs in light of information currently available to it. We caution that a number of important risks and uncertainties could cause actual results to differ materially from those discussed in the forward-looking statements, and therefore you should not place undue reliance on them. You also should not rely on the belief that it is our obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Risks and uncertainties that might affect us include, but are not limited to, fluctuation of currency exchange rates, overall supply and customer demand in the industry, product development and production capacities, performance of affiliated companies, and other risks and uncertainties.

FREQUENCY CONTROL DEVICES

Nihon Dempa Kogyo Co., Ltd. (NDK) was established in 1948 as a company specializing in the manufacturing of quartz crystal devices with a founding corporate philosophy of “contributing to the prosperity of society and world peace through our service to customers.”

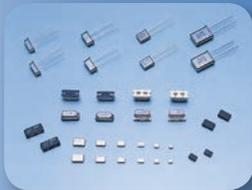
Since its establishment, NDK has provided support for the development of the electronics industry. NDK has become the leading company in its industry by accumulating technologies and meeting the diverse needs of its customers through integrated manufacturing, marketing, and innovative technology development. In FY2017, NDK began to mass-produce 1612-sized TCXOs based

on its miniaturization processing technology and newly entered the market for SAW devices for mobile communications using NDK’s original packaging technology.

In 2010, NDK became the first company in Japan to adopt the International Financial Reporting Standards, and, in FY2015, introduced a corporate officer system to separate the management oversight functions of the Board of Directors from the functions of the Corporate Officers in charge of the conduct of business activities. In FY2016, NDK appointed two Outside Directors to its Board of Directors to substantially strengthen surveillance over the business execution functions by providing an outside perspective in Board discussions and is making further progress in the creation of a sound and transparent management system.

NDK will continue to take up the challenges of creating new value and, as a specialized manufacturer of devices for control, selection, and detection of frequencies, will work actively to contribute to the safety, security, and comfort of society.

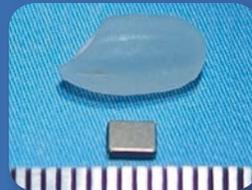
Product Lineup



Crystal Units



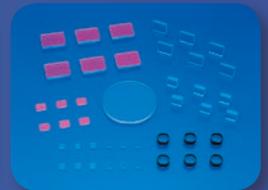
Crystal Oscillators



1612-sized Crystal Oscillators



SAW Devices



Optical Devices



Synthetic Quartz Crystals



Frequency Synthesizers



Ultrasonic Probes



Biosensors

NDK Crystal Devices

NDK will continue to provide the highest levels of technologies and reliability in all its products.

Today, NDK crystal devices are incorporated into artificial satellites. In fact, our crystal devices are the only ones in Japan certified by the Japan Aerospace Exploration Agency (JAXA). Devices used in satellites face extremely harsh conditions spanning shocks and vibrations during launch, severe thermal fluctuations, and the like. We will continue to deliver products that reliably perform even in such harsh operating environments.

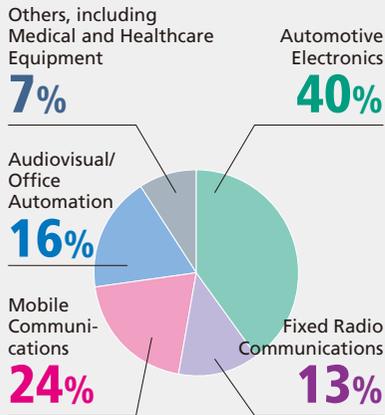


Quasi-Zenith Satellite-1 *MICHIBIKI* (Image courtesy of JAXA)

BUSINESS OVERVIEW

Principal Markets

Percentage of Total Sales



Number of Crystal Devices Used

Outline of Business Results and Outlook

Used in

Automotive products

Industrial products

SAW devices

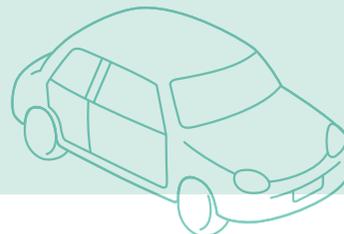


Automotive Electronics

- Ultralow-priced models: 10 to 20
- Economy models: 30 to 40
- Luxury models: 70 to 100

- Annual sales in volume terms increased due to expansion in sales of automobiles in China, India, Europe, and elsewhere and the worldwide rise in car-mounted equipment (especially along with the wider usage of ADASs (advanced driver assistance systems) that make use of communications and imaging devices).
- Demand is rising for ADAS equipment. ADAS equipment will use temperature compensated crystal oscillators (TCXOs), crystal clock oscillators (ICXOs), and surface acoustic wave (SAW) devices, which are required to meet high reliability requirements. Accordingly, NDK is pursuing development and design of these devices based on the experience accumulated thus far.

- Automobiles

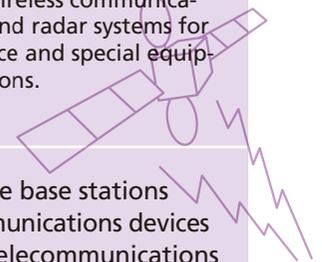


Fixed Radio Communications

- Mobile phone base stations: 10 to 100
- Optical communications devices (each device: 1 to 10 or more)
- IoT bases, Gateways: 2 to 4

- In the mobile phone base station and optical communications markets, demand for high accuracy, low jitter, high frequency devices for use in 5G equipment is increasing, and users are anticipating adoption of NDK's oven controlled crystal oscillators (OCXOs), TCXOs, and voltage-controlled crystal oscillators (VCXOs). Needs are also rising for more-compact crystal devices for compact base stations to cover urban areas, and demand for NDK's compact OCXOs is expanding.
- NDK is developing and marketing frequency synthesizers and module products for wireless communications devices and radar systems for use in aerospace and special equipment applications.

- Mobile phone base stations
- Optical communications devices
- Broadband telecommunications equipment
- Digital broadcasting equipment
- Measuring devices
- Satellites

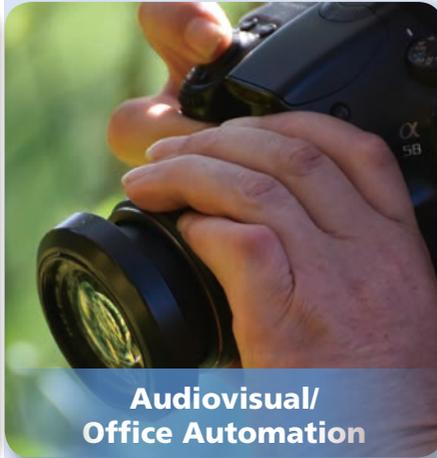


Devices for consumer products

Ultrasonic/Sensors



Mobile Communications



Audiovisual/ Office Automation



Medical and Healthcare Equipment

- Smartphones (2 to 7 crystal units and oscillators + SAW devices using 4 to 30 or more)

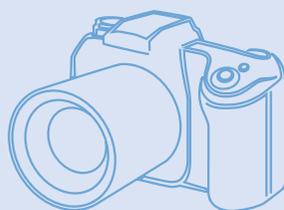
- Tablet computers: 3 to 4
- LCD TVs: 2 to 3
- Game consoles: 2 to 3
- Digital single-lens reflex cameras: 2 and 1 optical filter

• In the smartphone market, there was a trend toward adoption of chip sets that used crystal oscillators. However, a rise in adoption of chip sets that use crystal units incorporating thermistors is expected from FY2018. Thereby, NDK will respond by increasing production to meet expanding needs for crystal units incorporating thermistors.

- Sales of products for PCs and digital cameras declined because of the shrinkage in the markets for these products.
- Going forward, the IoT market is forecast to expand. Crystal devices will play a communications function in IoT systems. Accordingly, to capture this demand, NDK is proceeding with related design activities.

• As products become more compact, NDK has begun volume production of ultracompact 1612-sized TCXOs and developed 1612-sized units incorporating thermistors. NDK has also begun to supply SAW module manufacturers along with wider use of LTEs.

• NDK is expanding sales principally to North American and Chinese smartphone makers.



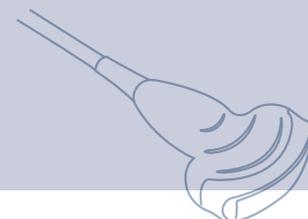
- Ultrasonic devices: Looking forward to a demand increase in medical and nursing care needs, NDK is developing and selling portable simplified ultrasonic devices that can display images on Android tablets.
- Biosensors: NDK aims to commercialize products for use in external medical diagnosis and food inspection. Development and sales will be carried out in collaboration with business partners who will market these products.
- Gas sensors: NDK is marketing these sensors widely in Japan and overseas to the aerospace development industry under the JAXA COSMODE brand and to semiconductor, construction materials, and other industries that require gas measuring functions.

- Smartphones



- PCs
- TVs
- Games
- Cameras

- Ultrasonic probes
- Biosensors





A handwritten signature in black ink, consisting of several overlapping loops and lines.

Toshiaki Takeuchi

Representative Director & Chairman of the Board,
President and CEO

NDK will focus on the automotive electronics markets, where firm growth in demand is expected, and continue to aim for growth.

Review of Fiscal 2017

During the year ended March 31, 2017, although recovery in the U.S. economy continued, driven by consumer spending against a background of recovery in the labor market, uncertainties remained regarding future trends as doubts continued about whether the new administration in the United States will be able to implement its economic policies. In Japan and Europe, gradual recovery trends continued, and China sustained real GDP growth in the latter half of the 6%-to-7% range, and the economy experienced a pause in the slowdown in growth.

In the operating environment, as growth in worldwide shipments of smartphones weakened, Chinese smartphone manufacturers expanded their market share, and their demand for crystal devices increased. In the automotive electronics business, along with the rise in the number of automobiles installed with advanced driver assistance systems (ADASs), demand for crystal devices increased.

Amid these operating conditions, sales to Chinese smartphone manufacturers increased. In addition, NDK's production lines for surface acoustic wave (SAW) devices went into operation, and sales of these products began. Sales to the mobile communications market expanded over the previous year due to these activities. Moreover, beginning in the fourth quarter of the fiscal year, NDK began the full-scale production of 1612-sized temperature compensated crystal oscillators (TCXOs) for smartphones, and sales of these devices contributed to earnings. In the automotive electronics business, although sales expanded more than 10% over the previous year,

as a result of the progressive shift toward surface-mounted device (SMD) products (which changed NDK's product mix) and the appreciation of the yen, average prices declined. Consequently, net sales declined from the previous year, but operating income remained level with the previous year. In the industrial products business, demand for crystal devices for mobile communications base stations was weaker than expected because of the upcoming transition to fifth-generation (5G) systems, which caused a reduction of demand for crystal devices. As a result, sales decreased from the previous year and income declined slightly.

Due to these circumstances, consolidated performance for the fiscal year under review (on an IFRS basis) was affected adversely, with orders on a consolidated basis decreasing 1.7% year on year, to ¥44,433 million, and net sales down 2.4%, to ¥43,791 million. Operating income, however, rose 77.1%, to ¥727 million, income before income tax rose a sharp 359.8%, to ¥472 million, and net income expanded 92.6%, to ¥611 million. Foreign currency translation differences for foreign operations were a minus ¥811 million. As a result of this and other factors, other comprehensive income (loss) for the period, net of income tax, amounted to a loss of ¥684 million. Thus, total comprehensive income (loss) for the period was a loss of ¥72 million (compared with a loss of ¥1,414 million in the previous fiscal year). Accompanying these financial results, the operating income to net sales ratio was 1.7%, and the return on equity attributable to owners of the Company was 2.4%.

Outlook for Fiscal 2018

In the world economy, the outlook for recovery is to continue in the U.S. economy, and the overall international economy is expected to continue to recover moderately. However, there are concerns about the impact of geopolitical risk factors in the Middle East and East Asia as well as policies of the new administration in the United States. Accordingly, the outlook leaves little cause for optimism.

Regarding the business environment surrounding the NDK Group, in the automotive electronics field, along with growth

in the number of automobiles equipped with ADAS devices, demand for crystal devices is expected to continue to expand in unit terms by 10% or more annually, with growth centered on crystal units. In the fixed radio communications field, to respond to the growth in data volumes and requirements for increasing transmission quality in areas covered, the market for compact mobile phone base stations is expanding rapidly, and NDK is moving forward with the development and sales of compact, high-precision OCXOs (oven controlled crystal oscillators).

In the mobile communications field, NDK is continuing to focus on strengthening its sales to makers in North America and newly emerging smartphone makers in China. NDK will move forward with the implementation of the previously mentioned approaches and aim for regaining its status as a group with ¥50 billion in annual sales.

For fiscal 2018, ending March 31, 2018, NDK is forecasting net sales of ¥50 billion (an increase of 14.2% over the previous

year), operating income of ¥1.5 billion (a gain of 106.1%), income before income tax of ¥1.4 billion (an increase of 196.2%), and net income of ¥1.1 billion (a gain of 79.9%). Forecast figures are based on a foreign exchange rate of ¥108 to the U.S. dollar, which will be about 0.9% stronger than the rate of ¥109.03 in the previous fiscal year.

Implementing Growth Strategies

Even after recovery in NDK's sales to the ¥50 billion level in fiscal 2018, NDK will focus on the automotive electronics markets, where firm growth in demand is expected, and continue to aim for growth. NDK will implement initiatives and address issues by market and by product as follows:

(1) Automotive Electronics Market

Looking ahead, in the ADAS business, where the number of automobiles equipped with these devices is increasing, cameras, radar systems, communications equipment,

and other products will be used as ADAS equipment. Crystal units, TCXOs, crystal clock oscillators (ICXOs), and SAW devices will be used for ADAS equipment. These products have highly demanding specifications, including usable temperature range and frequency stability. NDK is developing and marketing high-reliability products to meet customers' requirements.

(2) Industrial Product Market

To respond to the growth in data volumes and increasing transmission quality in areas covered, the number of compact base stations is growing. In addition, it is expected that the market for 5G base stations will start to grow from around 2019. The technological requirements for 5G products are extremely high, and to respond, NDK is moving forward with the development of compact, high-precision OCXOs that can come up to these 5G standards. In addition, NDK is developing and marketing crystal oscillators and module products for wireless communications devices and radar systems for use in aerospace and special equipment applications. Going forward, NDK will polish its high-frequency and wireless technology and move ahead with the development and marketing of related high-value-added products.

(3) Mobile Communications Market

From fiscal 2019 onward, the outlook is for the emergence of needs for 1210-sized and 1008-sized crystal products, which are substantially more compact than 1612-sized units. NDK is moving ahead with the development of these smaller crystal products and is working on designs. Using its miniature



processing technology, NDK will attain high levels of precision and reliability than is possible with machine processing methods.

(4) SAW Device Market

NDK will proceed with strengthening its product development and marketing for mobile communications applications and make an active entry into the SAW device market.

(5) Ultrasonic and Sensor Markets

In the ultrasonic equipment business, NDK is strengthening its sales in compact, simplified, portable ultrasonic sensors and 3D-imaging probes. Also, in the sensor business, NDK is promoting the commercialization of sensors for food product inspection and influenza detection from a long-term perspective.

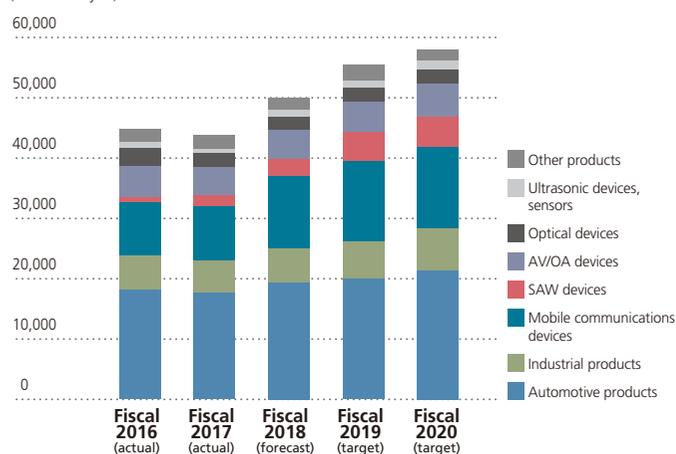
Enhancing Corporate Value

NDK has positioned the establishment of the corporate governance system as one of the highest management priorities. It is because NDK considered that it is indispensable to establish a corporate governance system that maintains management transparency and make sure it will guarantee accountability to stakeholders in order to increase its corporate value through generating earnings and continue to increase corporate value.

In June 2015, NDK elected two Outside Directors to its Board of Directors. To increase the effectiveness of the Board of Directors, NDK formed its Outside Officers Meeting, including the two Outside Directors and two Outside Audit & Supervisory Board Members. The Outside Officers Meeting holds active discussions regarding governance issues, and the content of these discussions is reported to the Board of Directors. NDK wants to maintain the trust of all its stakeholders and continue to be a respected corporate group by strengthening the surveillance of management, promoting legal compliance, helping to ensure accountability, promoting timely and appropriate disclosure of information, and providing incentives for fulfilling corporate social responsibilities, including activities for the protection of the natural environment.

Moreover, NDK positions returning the benefits gained by increasing corporate value to its shareholders as one of the

Medium-Term Composition of Sales
(Millions of yen)



Company's major management policies. Accordingly, with a basic policy of paying stable dividends, the Company will set its dividends after giving due consideration to its performance, financial position, and other matters.

Looking to the future, major market opportunities have opened up before NDK, including automatic driving systems, the Internet of Things (IoT), which will connect virtually everything through the Internet, and 5G mobile communications systems. Amid this operating environment, the NDK Group, as a specialized manufacturer of devices for control, selection, and detection of frequencies, will continue to work to deliver products that will bring major satisfaction to its customers. To accomplish this, NDK will endeavor to provide the high reliability and high technology necessary for automotive electronics products in all its products while maintaining its competitiveness and excellence in manufacturing. As in the past and continuing into the future, NDK will live up to its founding philosophy of "contributing to the prosperity of society and world peace through our service to customers" and continue to contribute to safety, security, and comfort of society.

We appreciate your interest in and support for NDK and look forward to your continuing cooperation in the years to come.

SALES, MANUFACTURING, AND TECHNOLOGIES STRATEGIES

Three of NDK's directors in overall charge of sales, manufacturing, and technologies explain NDK's corporate strategy in fiscal 2018 onwards. NDK's manufacturing, sales, and technologies departments are working together to steadily implement strategies aimed at sustainable medium- to long-term growth.

SALES



Reiji Fukuhara
Director
Senior Corporate Officer
General Manager of Sales &
Customer Service Division

As a result of the advent of "IoT," which has been termed the "fourth industrial revolution," by the year 2020, we will enter an era when more than 20 billion products will be "connected" using wireless technology. Key parts for these wireless systems will be crystal units, crystal oscillators, SAW devices, and real-time clocks. To prepare for this age of "connectedness," NDK must prepare its product development and manufacturing capacity as well as offer its clients technical proposals and engage in design activities. During the current year, NDK is focusing especially on the automotive electronics market (ADAS), base

MANUFACTURING



Akio Noheji
Director
Senior Corporate Officer
General Manager of
Corporate Production Division

As a result of the wider usage of IoT and the arrival of the era of automated driving vehicles, the demand for crystal devices is expected to expand at an accelerating pace. Under these circumstances, NDK has made "Quality First" the watchword among all its employees, and, with thoroughgoing emphasis on quality control, NDK is expanding its capital investments in advance of rising demand. NDK will continue its efforts to give its customers assurance of quality and reliability of supply.

At its manufacturing plants in Japan, NDK aggressively introduces the latest technologies to increase the reliability of its

TECHNOLOGIES



Kazuo Akaike
Director
Senior Corporate Officer
General Manager of
Engineering Division

I believe that a major revolution is under way in the communications infrastructure market, including the transition to 5G mobile communications. During times of change such as these, the number of new products increases, and I believe this will be a time for substantial growth as well as a time for substitution of the new for the old. Product examples include car-mounted crystal oscillators and crystal units that must be highly reliable and operate over a wide range of temperatures and ultrahigh-precision oscillators for infrastructure systems that are required to show deviations in standard signals of less than 1.5 microseconds over a 24-hour

stations (5G) market, and smart-phone market.

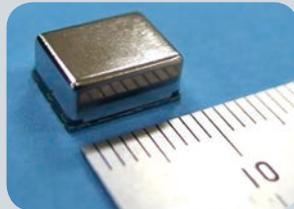
To respond to customers' needs and requests, NDK has created customer service systems that ensure its salespeople are "always near their customers." In the sensor market, NDK has developed ultrasonic sensors and biosensors as it works to broaden its product lineup.

products. In addition, NDK is taking initiatives to improve productivity to cope with the forecast of decline in the working age population.

In its overseas plants, NDK engages in continuing activities to improve the quality of its existing products with persistent efforts and works to assure customers will continue to use NDK products in the future.

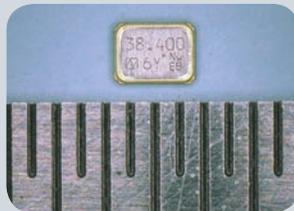
period. NDK has taken major customer market shares for these products. NDK will work to satisfy customer needs by building on the product fields where it has strengths, and, as a leader with advanced technology in crystal devices, develop leading-edge products.

Products Focus



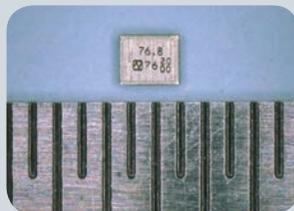
9 * 7mm OCXOs

It is expected that the market for 5G base stations will start to grow from around 2019. The technological requirements for 5G products are extremely high, and to respond, NDK is moving forward with the development of compact, high-precision OCXOs that can come up to these 5G standards.



1612-sized crystal units incorporating thermistors

NDK will expand sales of 1612-sized crystal products. NDK has started 1612-sized TCXO production in fiscal 2017. In fiscal 2018, NDK will increase production of crystal units incorporating thermistors.



1210-sized crystal units incorporating thermistors

Demand for 1210-sized crystal products is expected from fiscal 2019 onward. Therefore, NDK is moving ahead with the development of these smaller crystal products and is working on designs. Using ultra-miniature processing technology, NDK will attain high levels of precision and reliability than is possible with mechanical processing techniques.

Column

Gas Measurement Sensor Developed Jointly with JAXA: A World First

The plastic parts and adhesives used in solar batteries, cameras, telescopes, and other items on board space satellites and probes tend to emit gases that contaminate telescope lenses and other equipment and impair image quality.

The twin QCM gas sensor was developed jointly by NDK and JAXA and uses biosensors developed by NDK to measure gas emissions. Use of this gas sensor has made it possible to select non-contaminating materials for spacecraft.

The JAXA COSMODE mark appears on this sensor to indicate it was developed jointly with JAXA, and NDK is working to market widely these units in applications requiring gas measurement, such as semiconductor and construction materials manufacturing.



External view of twin QCM gas sensor



<JAXA COSMODE>

JAXA official brand. JAXA grants JAXA COSMODE to merchandise coproduced by JAXA and private businesses, and produced by and with the use and application of exclusive and non-exclusive technologies at JAXA's disposal, and JAXA registered properties. JAXA launched JAXA COSMODE to promote the progress of space development and to present to society the benefits of the space exploration sponsored and approved by the Japanese government.

CORPORATE GOVERNANCE

To continue to be a company that is “trusted and needed” for all its stakeholders, NDK positions corporate governance as its highest priority management issue. Accordingly, NDK is working to structure a corporate governance system that enhances the soundness, transparency, and efficiency of management.

NDK’s Governance Structure

NDK adopts the Audit & Supervisory Board form of corporate governance and elects eight Directors and three Audit & Supervisory Board Members. To strengthen auditing and oversight functions, two of the Directors are Outside Directors and two of the Auditors are Outside Audit & Supervisory Board Members. All of these four Outside Directors and Outside Audit & Supervisory Board Members are independent, have no major conflicts of interest with the Company, and have been officially reported to the Tokyo Stock Exchange, Inc.

In addition, to accelerate management decision making and policy implementation, NDK introduced a Corporate Officer system in 2014.

Design and Operation of Internal Controls

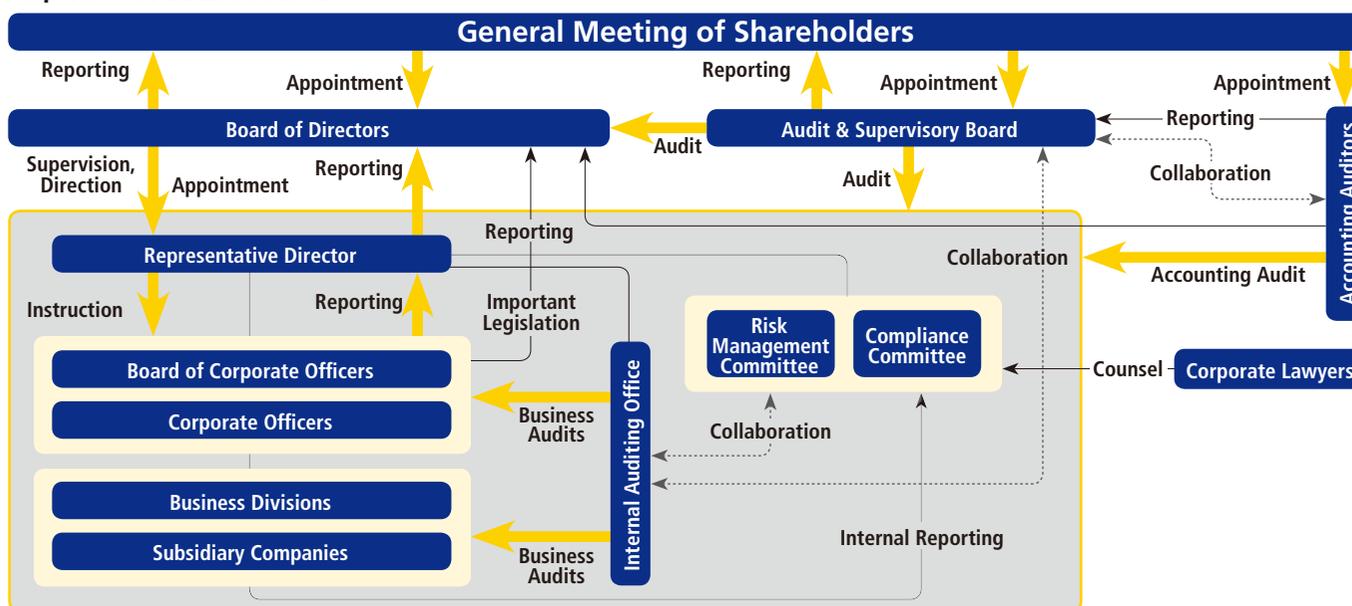
Regarding compliance, NDK has formed a Compliance Committee, and, by conducting compliance training for Directors and employees, works to establish and improve systems for maintaining compliance with laws and regulations. In addition, NDK has introduced internal reporting systems and has provided systems that gather, analyze, and make use of internal information regarding any violations of laws and regulations.

To manage risk, NDK has formed a Risk Management Committee, which is working to develop systems to prevent risks before they emerge and keep any losses that may occur to a minimum level.

Status of Activities of Outside Directors and Outside Audit & Supervisory Board Members and Their Activities

Title	Name	Outside Director/Audit & Supervisory Board Member	Status of Activities	Directors' meetings attended	Audit & Supervisory Board meetings attended
Outside Directors	Takehiko Tatsuko	○	In the meetings of the Board of Directors, based on his abundant experience and broad knowledge as a corporate manager, Mr. Tatsuko accurately points to matters for discussion. He also raises issues and expresses his opinions appropriately from his wide perspective in the areas of financial accounting and personnel/labor matters. He, thereby, contributes to proper and accurate decision making.	17/17	—
	Hirofumi Shimada	○	In the meetings of the Board of Directors, based on his abundant experience and broad knowledge as a corporate manager, Mr. Shimada accurately points to risks from his wide perspective in management accounting and organizational management, raises issues, and expresses his opinions. He, thereby, contributes to proper and accurate decision making.	16/17	—
Outside Audit & Supervisory Board Members	Shoji Kenmochi	○	In the meetings of both the Board of Directors and the Audit & Supervisory Board, based on his abundant experience and broad knowledge, mainly as a licensed tax accountant, Mr. Kenmochi provides professional advice on points for attention related to tax matters, and asks questions and expresses his opinions appropriately regarding organizational management and personnel while providing examples of similar matters in other companies. He, thereby, provides advice that helps to secure the appropriateness and accuracy of decision making.	16/17	14/15
	Yorihisa Suwa	○	In the meetings of both the Board of Directors and the Audit & Supervisory Board, based on his abundant experience and broad knowledge, mainly as a corporate manager and technical expert, Mr. Suwa raises questions and expresses his opinions on management policy, business plans, design reviews, quality assurance systems, cost reduction plans, and other matters. He, thereby, provides advice that helps to secure the appropriateness and accuracy of decision making.	17/17	15/15

Corporate Governance Structure



MESSAGES FROM NDK'S OUTSIDE DIRECTORS



Takehiko Tatsuko

Outside Director

Through active discussion in the meetings of NDK's Board of Outside Directors and Auditors, I believe we are having some success in actively addressing corporate governance issues.

1. Recognizing that business planning and our medium-term plan are vital to our commitment to shareholders and other stakeholders, I urged the business divisions to begin planning earlier and to devote ample time for discussion. As a result, we made improvements aligned with our goals of "growth and value creation" that have become central to management practice.

2. Regarding NDK's corporate governance frameworks, we have begun to review our Articles of Incorporation and internal rules and regulations with the objective of creating "a discipline structure." The review will be continued during the current fiscal year.
3. As set forth in Japan's Corporate Governance Code, we decided to implement an "Evaluation of the Effectiveness of the Board of Directors," beginning from fiscal 2017. We called third parties for assistance, but I pointed out that self-evaluation is important for Directors themselves as well. Subsequently, after discussion with related departments, we disclosed a summary version of our "Evaluation of the Effectiveness of the Board of Directors" to the Tokyo Stock Exchange.
4. Regarding our report entitled "Preparation of Plans for Successors to the Chief Executive Officer and Appropriate Supervision of These Plans," which is provided for in the Corporate Governance Code, interviews with Executive Officers with key management responsibilities were conducted by the Outside Directors and Auditors, and the content was reported to the Representative Director. We will proceed with further consideration of related matters, including human resource training.

I have served as Outside Director of NDK for two years.

During that time, as I have come to learn about how the Company was founded and how it developed subsequently, I have had renewed feelings about how wonderful a company NDK is with its technology capabilities and leading industry position.

Today, manufacturing companies are going through difficult times. In many cases, manufacturers of parts and components have been absorbed by larger companies. However, because of the high appraisal of its technology, NDK is one of the few specialized manufacturers of crystal devices that has survived.

Currently, we are said to be in the IoT era, and virtually every item we can think of comes complete with sensors. The data these devices collect is fed into what is called Big Data, and we are told that this is changing businesses. Crystal devices must play an indispensable role in the IoT era, and it might also be called the "crystal device" era. Expectations about NDK's future role are riding high.

However, the devices that NDK manufactures cover a wide range, from ultrahigh-precision parts made on order to mass-produced items that must be low-priced. Responding to resource requirements is challenging. Moreover, it seems to be the fate of parts manufacturers that the end users who use NDK products



Hirofumi Shimada

Outside Director

are far distant from NDK and it is difficult to "hear" their needs. In addition, the industry in which NDK belongs to is small, and one headache is that it is hard to obtain information on major trends in the world and on the major movements in technology.

Since my role as Outside Director is to contribute to NDK's further development from a broad perspective by helping it deal with these major trends and movements in technology, I look forward to your inputs and cooperation as we move forward.

DIRECTORS, AUDIT & SUPERVISORY BOARD MEMBERS, AND CORPORATE OFFICERS

(As of June 23, 2017)

Directors and Audit & Supervisory Board Members



Seated, from left: Akio Noheji, Hiromi Katoh, Toshiaki Takeuchi, Junichi Naruse, Kazuo Akaike
Standing, from left: Shoji Kenmochi, Hirofumi Shimada, Reiji Fukuhara, Takehiko Tatsuko, Shigeo Handa, Yori-hisa Suwa

Representative Director & Chairman of the Board, President and CEO

Toshiaki Takeuchi*

Representative Director and CEO

Professional career

April 1965 Joined IBM Japan
May 1974 Director of NDK
June 1977 Vice President and Director of NDK
June 1988 Vice President and Representative Director of NDK
July 1991 President and Representative Director of NDK
April 2005 Chairman and Representative Director of NDK
November 2014 Representative Director & Chairman of the Board,
President and CEO of NDK (Present)

Directors

Hiromi Katoh*

Executive Vice President
General Manager of Administration Division

Professional career

April 1976 Joined NDK
June 2001 Director of NDK
June 2003 General Manager of General Affairs and Personnel Departments
of NDK
October 2009 General Manager of Administration Division of NDK (Present)
June 2011 Managing Director of NDK
November 2014 Executive Vice President and Director of NDK (Present)

Reiji Fukuhara*

Senior Corporate Officer
General Manager of Sales & Customer Service Division

Professional career

April 1982 Joined NDK
June 2007 Director of NDK
November 2014 Corporate Officer of NDK
June 2017 Senior Corporate Officer and Director of NDK and General Manager of
Sales & Customer Service Division of NDK (Present)

Junichi Naruse*

Executive Corporate Officer
General Manager of Corporate Planning Office

Professional career

April 1981 Joined NDK
June 2009 Director of NDK
November 2014 Senior Corporate Officer and Director of NDK
General Manager of Sales & Customer Service Division of NDK
June 2017 Executive Corporate Officer and Director of NDK and General Manager
of Corporate Planning Office of NDK (Present)

Akio Noheji*

Senior Corporate Officer
General Manager of Corporate Production Division

Professional career

April 1981 Joined Takeyama Shokai
October 1988 Joined Hakodate NDK
April 2004 Joined NDK
June 2009 Director of NDK
November 2014 Corporate Officer of NDK
April 2017 Senior Corporate Officer of NDK and General Manager
of Corporate Production Division of NDK
June 2017 Senior Corporate Officer and Director of NDK and General Manager
of Corporate Production Division of NDK (Present)

Kazuo Akaike*

Senior Corporate Officer
General Manager of Engineering Division

Professional career

April 1969 Joined Kokusai Electric Inc.
April 2002 Joined NDK
November 2014 Corporate Officer of NDK
April 2017 Senior Corporate Officer of NDK and General Manager of Engineering Division of NDK
June 2017 Senior Corporate Officer and Director of NDK and General Manager of Engineering Division of NDK (Present)

Hirofumi Shimada

Outside Director
Advisor of Nippon COMSYS Corporation

Professional career

April 1967 Joined Nippon Telegraph and Telephone Public Corporation
June 1994 Director of Nippon Telegraph and Telephone Corporation
June 1999 President and Representative Director of Nippon Information and Communication Corporation
June 2002 Vice President and Director of Nippon COMSYS Corporation
June 2003 President and Representative Director of Nippon COMSYS Corporation
September 2003 President and Representative Director of COMSYS Holdings Corporation
June 2007 Chairman and Representative Director of Nippon COMSYS Corporation
June 2013 Advisor of Nippon COMSYS Corporation (Present)
June 2015 Outside Director of NDK (Present)

Takehiko Tatsuko

Outside Director

Professional career

April 1965 Joined Mitsubishi Electric Corporation
June 1998 Executive Vice President of Electronic Systems Group of Mitsubishi Electric Corporation
June 2000 Director of Mitsubishi Precision Co., Ltd.
October 2000 Senior Managing Director of Mitsubishi Precision Co., Ltd.
April 2001 President and CEO of Mitsubishi Precision Co., Ltd.
June 2007 Chairman of Japan International Marine Science and Technology Federation
June 2008 Outside Audit & Supervisory Board Member of NDK
June 2015 Outside Director of NDK (Present)

Audit & Supervisory Board Members

Shigeo Handa

Standing Audit & Supervisory Board Member

Professional career

October 1979 Joined NDK
October 2006 General Manager of Treasury & Accounting Department of NDK
June 2012 Standing Audit & Supervisory Board Member of NDK (Present)

Yorihisa Suwa

Outside Audit & Supervisory Board Member

Professional career

April 1970 Joined Japan Radio Co., Ltd.
June 2004 Director of Product Development of Japan Radio Co., Ltd.
June 2005 President and Representative Director of Japan Radio Co., Ltd.
June 2011 Chairman and Representative Director of Japan Radio Co., Ltd.
Vice President and Director of Nisshinbo Holdings Inc.
June 2015 Outside Audit & Supervisory Board Member of NDK (Present)

Shoji Kenmochi

Outside Audit & Supervisory Board Member

Professional career

June 1987 Head of Kumamoto Regional Taxation Bureau
August 1988 Registered as Certified Tax Accountant
September 1988 Opened Shoji Kenmochi Tax Accounting Office and became Representative of the office (Present)
June 2001 Outside Audit & Supervisory Board Member of NDK (Present)

Corporate Officers

Nobumitsu Fujiwara

President of Suzhou NDK Co., Ltd.

Hiroyuki Shinada

General Manager of Industrial Engineering Division

Michio Aoyama

Deputy General Manager of Administration Division

Noritoshi Kimura

Deputy General Manager of Engineering Division

Kouji Kubota

General Manager of Quality Assurance Department

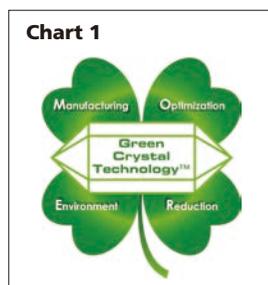
* Concurrently as corporate officers

Environmental Policy and Initiatives

NDK operates globally with the corporate philosophy of “NDK takes its part in protecting the environment and is fulfilling its social responsibilities.” To this end, NDK has structured a Companywide environmental management system and is pursuing activities to protect the global environment.

The Company has due regard for the environment and does not select or use parts or materials that contain substances that are forbidden and/or place a burden on the environment at any stage of its activities. NDK is also compliant with environment-related laws in all countries where it operates as well as the requests of its customers, and has established a list of management standards for environment-related substances for responding to ELV, RoHS, REACH, and other directives and requirements.

Initiatives based on various systems include securing and operating under ISO 14001 certifications. Particularly regarding reduction of CO₂ greenhouse gas emissions, the Company has prepared a medium-term plan that includes targets for reducing emissions and is working to attain these goals. To respond to the environmental needs of society and reduce CO₂ emissions, NDK has established “Green Crystal Technology” (Chart 1) as the model concept for its crystal device development and works to apply cutting-edge technology to provide even more compact, lighter, and power-conserving devices.



Environmental Performance

(The graphs below show the environmental data for the Sayama Plant, which is NDK’s “mother” plant.)

NDK is endeavoring to reduce the burden that its activities place on the environment and has prepared a medium-term plan that contains specific issues and sets objectives. Trends in NDK’s principal emissions that place a burden on the environment are shown in items (i) to (iii). NDK has earned a high appraisal for its environmental initiatives, and in June 2011 received an environmental rating from the Development Bank of Japan (DBJ), qualifying it to receive financing on preferential terms. Under this DBJ rating system, companies that have excellent environmental management receive ratings, and financing terms are set according to the level of the rating.

(i) Global warming prevention measures

To attain its CO₂ emissions reduction objectives, the Company introduced energy-saving equipment, carefully controls its process management, and implements other activities. As a result, the Company meets the emissions reduction target of 13%, which was set by the government of Saitama Prefecture for the prevention of global warming.

(ii) Reduction of waste emissions

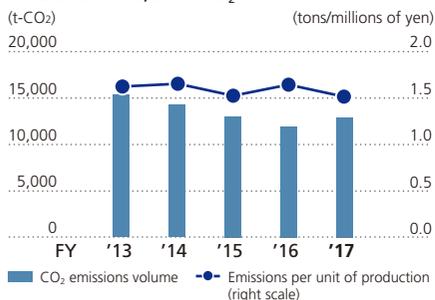
The Company has maintained zero emissions (100% recycling of waste products) since fiscal 2010.

(iii) Management of environmentally hazardous chemical substances

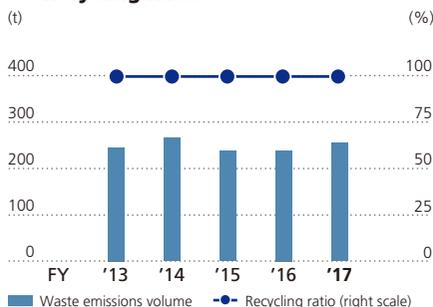
Hydrogen fluoride and its water-soluble salts are the only substances NDK employs that fall within the scope of Japan’s Pollutant Release and Transfer Register (PRTR) system. The Company maintains a zero volume of waste from sludge treatment processes through detoxification processing.

For more-detailed information, please read the CSR activities information at the following Internet address:
<http://www.ndk.com/en/environment/>

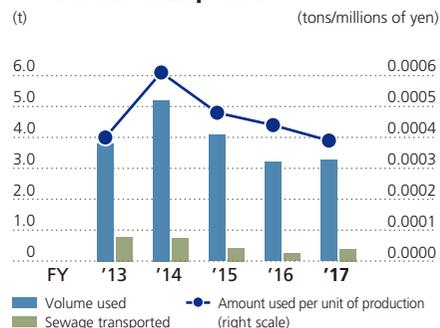
(i) CO₂ Emissions Volume and Emissions per Unit of Production
 Baseline: 15,840 t-CO₂



(ii) Waste Emissions and Recycling Ratio



(iii) Hydrogen Fluoride Used and Volume Transported



NDK Group Guidelines for Action

In December 2015, the Company prepared its NDK Group Code of Conduct with the aim of setting the directions necessary for NDK to contribute to creating a sustainable society. This Code of Conduct was prepared based on NDK’s corporate philosophy and ethical standards. The companies of the NDK Group, which have responsibilities to society for maintaining high ethical standards, have declared that they will follow this Code, and all members of NDK Group management and staff understand the Code and will abide by it. To put this Code into practice, NDK conducts training related to CSR and the Subcontract Proceeds Law* as well as compliance training for

new employees. In addition, the content of the NDK Group Code of Conduct follows the content of the Electronic Industry Citizenship Coalition (EICC) code of conduct, and it is not limited to the behavior of just one enterprise but also applies to the initiatives of supply chain participants, including suppliers.

* Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors

For more-detailed information, please read the “NDK Group Code of Conduct” at the following Internet address:
http://www.ndk.com/pdf/code_of_conducy_en.pdf

SIX-YEAR SUMMARY

Nihon Dempa Kogyo Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31

	Millions of yen						Thousands of U.S. dollars (Note)
	2017	2016	2015	2014	2013	2012	2017
Net sales	¥43,791	¥44,850	¥47,730	¥50,774	¥50,623	¥50,804	\$390,328
Cost of sales	34,620	36,137	38,801	40,978	40,752	38,744	308,583
Selling, general and administrative expenses	6,479	6,718	7,713	7,496	7,186	7,417	57,750
Research and development expenses	2,035	1,921	2,133	2,221	2,579	2,686	18,138
Operating income	727	410	175	240	235	2,081	6,480
Income/(loss) before income tax	472	102	359	191	(37)	1,615	4,207
Net income/(loss)	611	317	(569)	181	(289)	1,759	5,446
Net income/(loss) attributable to owners of the parent	611	317	(569)	181	(289)	1,759	5,446
Total comprehensive (loss)/income for the period	(72)	(1,414)	1,319	827	1,307	1,863	(641)
Total assets	68,830	67,966	71,670	76,218	71,367	67,216	613,512
Total equity	25,234	25,700	27,507	26,581	26,147	26,123	224,922
Depreciation and amortisation	3,641	3,558	3,809	3,923	3,425	3,040	32,453
Capital expenditures	6,779	2,099	2,024	2,733	4,736	4,873	60,424

	Yen						U.S. dollars (Note)
	2017	2016	2015	2014	2013	2012	2017
Per Share Data:							
Net income/(loss):							
Basic	¥31.16	¥16.17	¥(29.00)	¥ 9.25	¥(14.75)	¥89.66	\$0.27
Diluted	—	—	—	—	—	89.66	—
Cash dividends applicable to the period	20.00	20.00	20.00	20.00	20.00	20.00	0.17

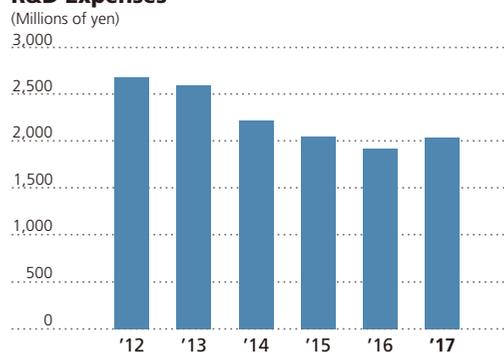
Notes: 1. Figures are presented in accordance with International Financial Reporting Standards. The U.S. dollar amounts represent translations of Japanese yen amounts at the rate of ¥112.19 to U.S.\$1.00, which was the rate prevailing on March 31, 2017.

2. The results for the year of 2014 are retrospective in line with changes in accounting policies.

Cost of Sales/Net Sales



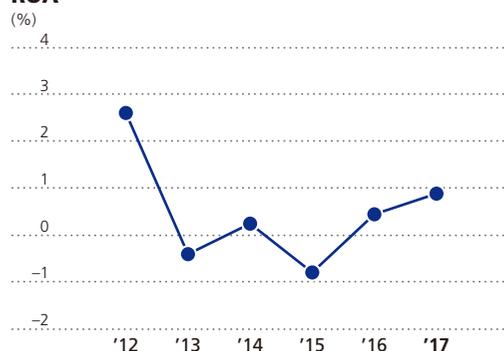
R&D Expenses



ROE



ROA



MANAGEMENT'S DISCUSSION AND ANALYSIS

Outlook

During the year ended March 31, 2017, although recovery in the U.S. economy continued, driven by consumer spending against a background of recovery in the labor market, uncertainties remained regarding future trends as doubts continued about whether the Trump administration will be able to implement its economic policies. In Japan and Europe, gradual recovery trends continued, and China sustained real GDP growth in the latter half of the 6%-to-7% range, and the economy experienced a pause in the slowdown in growth.

In the operating environment, as growth in worldwide shipments of smartphones weakened, Chinese smartphone manufacturers expanded their market share, and demand for crystal devices increased. In the automotive electronics market, along with the rise in the number of automobiles installed with advanced driver assistance systems (ADASs), demand for crystal devices increased.

Amid these operating conditions, sales to Chinese smartphone manufacturers increased. In addition, NDK's production lines for surface acoustic wave (SAW) devices went into operation, and sales of these products began. Sales to the mobile communications market expanded over the previous year due to these activities. Moreover, beginning in the fourth quarter of the fiscal year, NDK began the full-scale production of 1612-sized temperature compensated crystal oscillators (TCXOs) for the latest smartphones, and sales of these devices contributed to earnings. In the automotive electronics market, although sales volume expanded more than 10% over the previous year, as a result of the progressive shift toward SMDs (which changed NDK's product mix) and the appreciation of the yen, average unit prices declined. Consequently, net sales declined from the previous year, but income remained level with the previous year. In the industrial products market, demand for crystal devices for mobile communications base stations was weaker than expected because of the upcoming transition to fifth-generation (5G) systems. As a result, sales decreased from the previous year and income declined slightly.

Results of Operations

Orders on a consolidated basis for the fiscal year decreased 1.7% year on year, to ¥44,433 million, and net sales were down 2.4%, to ¥43,791 million. Operating income, however, rose 77.1%, to ¥727 million, income before income tax rose a sharp 359.8%, to ¥472 million, and net income expanded 92.6%, to ¥611 million.

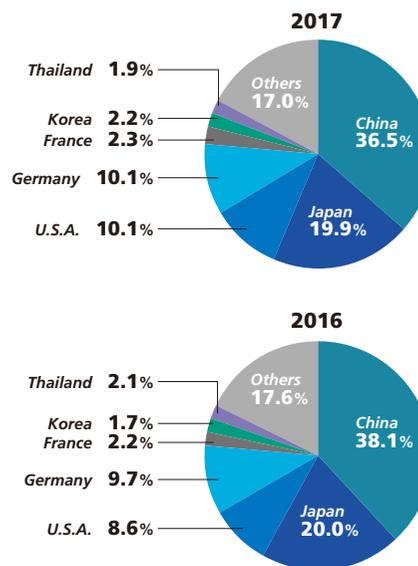
Sales by Product

Sales by product were as follows.

(1) Crystal Units

From the latter half of the previous fiscal year into the first quarter of the fiscal year under review, in the mobile communications market, sales of crystal units declined, but from the second quarter onward, sales expanded, led by growth in crystal units with temperature sensors, but failed to return to the level of the previous year. Although the number of sales of crystal units for automotive products increased more than 10% from the previous fiscal year, the product mix changed along with the shift to SMD products, and together with the appreciation of the yen, resulted in a decline in average unit prices. As

Sales by Customer-Based Geographic Area



a result of these factors, sales of crystal units for the fiscal year decreased 7.5%, to ¥24,780 million.

(2) Crystal Devices

Crystal device sales declined because demand for crystal devices for mobile communications base stations was weaker than anticipated because of the upcoming transition to 5G systems. On the other hand, NDK began mass production of compact 1612-sized units for products in the TCXO market. In addition, sales of TCXOs to smartphone manufacturers in China increased. Moreover, NDK began production of SAW devices for use in mobile communications products, and this brought an increase in sales to the mobile communications market. As a result, sales of crystal devices rose 10.6%, to ¥15,070 million.

(3) Other

Sales of ultrasonic devices and optical devices decreased. As a result, sales declined 10.9%, to ¥3,941 million.

Performance by Customer-Based Geographic Area

Performance by customer-based geographic area was as follows.

Japan

Sales of optical devices for use in digital cameras decreased. As a result, sales declined 2.6%, to ¥8,719 million.

Asia

NDK began mass production of 1612-sized TCXOs for the mobile communications market, and sales of TCXOs to smartphone manufacturers in China increased, but sales of crystal units decreased. In addition, sales of products for use in PCs, TVs, and cameras as well as other AV/OA products declined. As a result, sales in China were down 6.4%, to ¥15,998 million, but sales in South Korea increased 30.3%, to ¥978 million. Sales in Thailand dropped 13.3%, to ¥822 million, but sales in other areas rose 0.6%, to ¥2,662 million.

Europe

Sales of crystal units for automotive products in Germany increased, but in Europe as a whole, although sales volume expanded, the

product mix changed along with the shift to SMD products, resulting in a decline in average unit prices. Sales of products for automotive electronics decreased. In addition, demand for crystal devices for mobile communications base stations was weaker than anticipated because of the upcoming transition to 5G systems, and sales declined. As a consequence, sales in Germany expanded 1.8%, to ¥4,414 million, as sales in France grew 0.7%, to ¥996 million, and sales in the rest of the region fell 11.9%, to ¥3,436 million.

North America

Sales of products for automotive electronics decreased because of the effect on average unit prices of the change in the product mix along with the shift to SMDs and the impact of the appreciation of the yen. On the other hand, NDK commenced production and sales of SAW devices for mobile communications, and sales to the mobile communications market expanded. As a result, sales in the United States rose 14.7%, to ¥4,433 million, as sales in other parts of the region rose 6.8%, to ¥130 million.

R&D Expenses

NDK engages in R&D programs aiming at establishing new technologies and manufacturing methods that will be the foundation for future products in the medium and long terms. To better meet customer crystal device needs, the Group is strengthening its R&D systems, with the Sayama Plant as its hub, and is conducting R&D to develop next-generation frequency control, selection, and detection devices as well as enhancing its design and process technologies, which form the core of its R&D.

R&D expenses on a consolidated basis during the fiscal year under review totaled ¥2,035 million.

Financial Condition

At fiscal year-end, total assets amounted to ¥68,830 million, an increase of ¥863 million from the previous fiscal year-end. Factors accounting for this included a decrease of ¥3,811 million in cash and cash equivalents, an increase of ¥1,567 million in inventories, and an increase of ¥2,660 million in property, plant and equipment. Total liabilities amounted to ¥43,596 million, an increase of ¥1,329 million from the previous fiscal year-end, owing to factors that included a decrease of ¥1,323 million in loans and borrowings and an increase of ¥2,098 million in trade and other payables. Equity attributable to the owners of the Company amounted to ¥25,234 million, a decrease of ¥465 million due to a total comprehensive loss for the period of ¥72 million and ¥392 million in dividend payments from retained earnings.

As a result, the ratio of equity attributable to owners of the Company was 36.7%, 1.1 percentage points lower than at the previous fiscal year-end.

Capital Financing and Cash Flow Analysis

The Group obtains funds for working capital and capital investments from internal sources and bank loans. Bank loans include short-term loans with periods of one year or less procured for working capital and longer-term loans for long-term funding, such as for production facilities. As of March 31, 2017, the Group had outstanding balances of short-term loans and borrowings of ¥6,673 million and long-term loans and borrowings of ¥21,184 million.

The balance of cash and cash equivalents on a consolidated basis at the end of the fiscal year under review amounted to ¥13,350 million, which was ¥3,811 million lower than at the end of the previous fiscal year. Factors positively influencing this change included cash inflow from ¥10,500 million in proceeds from long-term loans and borrowings and depreciation and amortization of ¥3,641 million. Factors subtracting from the balance included repayment of long-term loans and borrowings of ¥16,873 million and purchases of property, plant and equipment of ¥5,785 million.

Free cash flow amounted to a negative ¥1,794 million, which was ¥6,257 million lower than in the previous fiscal year. This was because net cash provided by operating activities was ¥3,891 million, but net cash used in investing activities amounted to ¥5,686 million.

Net cash provided by operating activities was negatively affected by an increase in inventories of ¥1,754 million and a rise in trade receivables of ¥255 million. However, these negative factors were offset by depreciation and amortization of ¥3,641 million, an increase in trade payables of ¥706 million, and other factors. As a consequence, net cash provided by operating activities was ¥3,891 million (which was ¥1,775 million less than in the previous year).

Net cash used in investing activities was positively affected by proceeds from sales of investments and other assets of ¥1,252 million. However, this inflow was more than offset by purchases of property, plant and equipment of ¥5,785 million, purchases of investments and other assets amounting to ¥1,149 million, and other factors. As a result, net cash used in investing activities was ¥5,686 million (which was a ¥4,482 million larger outflow than in the previous year).

Net cash used in financing activities was ¥1,765 million (which was a ¥663 million larger outflow than in the previous year) because proceeds from long-term loans and borrowings of ¥10,500 million were offset by repayment of long-term loans and borrowings of ¥16,873 million and other factors.

Dividends

NDK regards returning profit to shareholders as a management priority and aims to maintain stable dividend payments while taking into account earnings, financial position, and other factors. NDK seeks to maintain a virtuous circle through a reasonable balance between accumulation of retained earnings and shareholder dividend payments, and we are committed to further improving earnings performance by conducting R&D and capital investments that enable NDK to manufacture high-value-added and high-quality products that will effectively strengthen the Company's business structure.

Based on a comprehensive consideration of the business performance during the year, the management environment, and other factors, the Company has set a year-end dividend of ¥10 per share for the year ended March 31, 2017. As a consequence, combined with the ¥10 per share interim dividend, the total dividend for the fiscal year amounted to ¥20 per share.

For the year ending March 31, 2018, with the assumption that the Company attains its forecasts for performance, the Company plans to pay total dividends of ¥20 per share, consisting of an interim dividend of ¥10 per share and a year-end dividend of ¥10 per share.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Nihon Dempa Kogyo Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2017 and 2016

ASSETS	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Current assets:			
Cash and cash equivalents (Note 4)	¥13,350	¥17,161	\$118,994
Trade receivables (Note 5)	10,500	10,390	93,591
Inventories (Note 6)	12,188	10,621	108,637
Income taxes refundable	55	5	490
Derivative assets (Note 27)	0	373	0
Others (Note 7)	2,719	2,334	24,235
Total current assets	38,814	40,886	345,966
Non-current assets:			
Property, plant and equipment (Note 8)	26,165	23,504	233,220
Intangible assets (Note 9)	988	1,041	8,806
Investment securities (Note 10)	978	839	8,717
Deferred tax assets (Note 25)	1,303	1,101	11,614
Others (Note 11)	580	594	5,169
Total non-current assets	30,016	27,080	267,546
Total assets	¥68,830	¥67,966	\$613,512

The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
LIABILITIES AND EQUITY	2017	2016	2017
Current liabilities:			
Loans and borrowings (Note 14)	¥15,183	¥17,254	\$135,332
Trade and other payables (Note 12)	9,471	7,373	84,419
Derivative liabilities (Note 27)	212	83	1,889
Provisions (Note 30)	—	32	—
Income taxes payable	233	165	2,076
Others (Note 13)	1,285	570	11,453
Total current liabilities	26,386	25,478	235,190
Non-current liabilities:			
Loans and borrowings (Note 14)	12,756	12,008	113,699
Deferred tax liabilities (Note 25)	403	430	3,592
Employee benefits (Note 15)	3,624	3,827	32,302
Provisions (Note 30)	52	91	463
Deferred government grants	124	180	1,105
Others	249	249	2,219
Total non-current liabilities	17,209	16,788	153,391
Total liabilities	43,596	42,266	388,590
Equity:			
Share capital (Note 16)	10,649	10,649	94,919
Share premium (Note 16)	8,563	8,563	76,325
Other components of equity (Note 16)	(1,025)	(174)	(9,136)
Retained earnings	7,046	6,660	62,804
Total equity attributable to owners of the Company	25,234	25,700	224,922
Total equity	25,234	25,700	224,922
Total liabilities and equity	¥68,830	¥67,966	\$613,512

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Nihon Dempa Kogyo Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Net sales	¥43,791	¥44,850	\$390,328
Cost of sales (Notes 18, 22 and 23)	(34,620)	(36,137)	(308,583)
Gross profit	9,171	8,713	81,745
Selling, general and administrative expenses (Notes 19, 22, 23 and 28)	(6,479)	(6,718)	(57,750)
Research and development expenses (Notes 20, 22 and 23)	(2,035)	(1,921)	(18,138)
Other operating income (Note 21)	443	571	3,948
Other operating expenses (Notes 21 and 23)	(371)	(234)	(3,306)
Operating income	727	410	6,480
Financial income (Note 24)	216	331	1,925
Financial expenses (Note 24)	(471)	(639)	(4,198)
Income before income tax	472	102	4,207
Income tax benefits (Note 25)	138	214	1,230
Net income for the period	611	317	5,446
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit plan	166	(296)	1,479
Subtotal	166	(296)	1,479
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations (Note 16)	(815)	(1,416)	(7,264)
Foreign currency translation differences for foreign operations transferred to profit or loss	3	—	26
Change in fair value of available-for-sale financial assets (Note 16)	68	(238)	606
Change in fair value of available-for-sale financial assets transferred to profit or loss	(107)	210	(953)
Income tax relating to items that may be reclassified (Note 25)	(1)	8	(8)
Subtotal	(851)	(1,434)	(7,585)
Other comprehensive loss for the period, net of income tax	(684)	(1,731)	(6,096)
Total comprehensive loss for the period	¥ (72)	¥ (1,414)	\$ (641)
Net income attributable to:			
Owners of the Company	¥ 611	¥ 317	\$ 5,446
Total comprehensive income attributable to:			
Owners of the Company	¥ (72)	¥ (1,414)	\$ (641)
Earnings per share (Note 26):			
Basic earnings per share	¥ 31.16	¥ 16.17	\$ 0.27

The accompanying notes to consolidated financial statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Nihon Dempa Kogyo Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2017 and 2016

	Millions of yen									
	Share capital	Additional paid-in capital*	Treasury shares*	Share premium*	Available-for-sale financial assets**	Translation differences for foreign operations**	Other components of equity**	Retained earnings	Attributable to owners of the Company	Total equity
Balance at March 31, 2015	¥10,649	¥11,353	¥(2,788)	¥8,564	¥ 8	¥1,251	¥ 1,260	¥7,032	¥27,507	¥27,507
Total comprehensive income for the period										
Net income				—				317	317	317
Other comprehensive loss, net of income tax										
Remeasurement of defined benefit plan				—				(296)	(296)	(296)
Foreign currency translation differences for foreign operations				—		(1,416)	(1,416)		(1,416)	(1,416)
Net change in fair value of available-for-sale financial assets				—	(18)		(18)		(18)	(18)
Total comprehensive loss for the period	—	—	—	—	(18)	(1,416)	(1,434)	20	(1,414)	(1,414)
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Changes in treasury shares, net			(0)	(0)					(0)	(0)
Dividends declared (Note 17)				—				(392)	(392)	(392)
Total contributions by and distributions to owners	—	—	(0)	(0)	—	—	—	(392)	(392)	(392)
Total transactions with owners	—	—	(0)	(0)	—	—	—	(392)	(392)	(392)
Balance at March 31, 2016	¥10,649	¥11,353	¥(2,789)	¥8,563	¥ (10)	¥ (164)	¥ (174)	¥6,660	¥25,700	¥25,700
Total comprehensive income for the period										
Net income				—				611	611	611
Other comprehensive loss, net of income tax										
Remeasurement of defined benefit plan				—				166	166	166
Foreign currency translation differences for foreign operations				—		(811)	(811)		(811)	(811)
Net change in fair value of available-for-sale financial assets				—	(39)		(39)		(39)	(39)
Total comprehensive loss for the period	—	—	—	—	(39)	(811)	(851)	778	(72)	(72)
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Changes in treasury shares, net		(0)	(0)	(0)					(0)	(0)
Dividends declared (Note 17)				—				(392)	(392)	(392)
Total contributions by and distributions to owners	—	(0)	(0)	(0)	—	—	—	(392)	(392)	(392)
Total transactions with owners	—	(0)	(0)	(0)	—	—	—	(392)	(392)	(392)
Balance at March 31, 2017	¥10,649	¥11,353	¥(2,789)	¥8,563	¥(49)	¥ (975)	¥(1,025)	¥7,046	¥25,234	¥25,234

	Thousands of U.S. dollars									
	Share capital	Additional paid-in capital*	Treasury shares*	Share premium*	Available-for-sale financial assets**	Translation differences for foreign operations**	Other components of equity**	Retained earnings	Attributable to owners of the Company	Total equity
Balance at March 31, 2016	\$94,919	\$101,194	\$(24,859)	\$76,325	\$ (89)	\$(1,461)	\$(1,550)	\$59,363	\$229,075	\$229,075
Total comprehensive income for the period										
Net income				—				5,446	5,446	5,446
Other comprehensive loss, net of income tax										
Remeasurement of defined benefit plan				—				1,479	1,479	1,479
Foreign currency translation differences for foreign operations				—		(7,228)	(7,228)		(7,228)	(7,228)
Net change in fair value of available-for-sale financial assets				—	(347)		(347)		(347)	(347)
Total comprehensive loss for the period	—	—	—	—	(347)	(7,228)	(7,585)	6,934	(641)	(641)
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Changes in treasury shares, net		(0)	(0)	(0)					(0)	(0)
Dividends declared (Note 17)				—				(3,494)	(3,494)	(3,494)
Total contributions by and distributions to owners	—	(0)	(0)	(0)	—	—	—	(3,494)	(3,494)	(3,494)
Total transactions with owners	—	(0)	(0)	(0)	—	—	—	(3,494)	(3,494)	(3,494)
Balance at March 31, 2017	\$94,919	\$101,194	\$(24,859)	\$76,325	\$(436)	\$(8,690)	\$(9,136)	\$62,804	\$224,922	\$224,922

* The figures in the share premium column are calculated by totalling additional paid-in capital and treasury shares.

** The figures in the other components of the equity column are calculated by totalling available-for-sale financial assets and translation differences for foreign operations.

The accompanying notes to consolidated financial statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Nihon Dempa Kogyo Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Operating activities:			
Income before income tax	¥ 472	¥ 102	\$ 4,207
Depreciation and amortisation	3,641	3,558	32,453
Gain on sales of property, plant and equipment	(9)	(156)	(80)
Loss on disposal of property, plant and equipment	68	5	606
Impairment losses of property, plant and equipment	8	20	71
Gain on sales of investment securities	(111)	(102)	(989)
Impairment losses of investment securities	4	342	35
Gain on receipt of subsidies	(86)	(119)	(766)
Insurance claim income	(70)	(195)	(623)
(Increase)/Decrease in trade receivables	(255)	853	(2,272)
(Increase)/Decrease in inventories	(1,754)	1,487	(15,634)
Increase/(Decrease) in trade payables	706	(422)	6,292
Increase/(Decrease) in accrued bonuses	318	(347)	2,834
Decrease/(Increase) in derivative assets	372	(340)	3,315
Increase/(Decrease) in derivative liabilities	134	(89)	1,194
Decrease in provisions	(72)	(13)	(641)
Interest and dividend income	(70)	(83)	(623)
Interest expense	183	224	1,631
Interest and dividends received	73	84	650
Interest paid	(149)	(173)	(1,328)
Proceeds from insurance claim income	70	898	623
Income tax paid, net	(174)	(156)	(1,550)
Other, net	591	288	5,267
Net cash provided by operating activities	3,891	5,667	34,682
Investing activities:			
Purchase of property, plant and equipment	(5,785)	(1,709)	(51,564)
Purchase of intangible assets	(61)	(44)	(543)
Purchase of investments and other assets	(1,149)	(1,676)	(10,241)
Proceeds from sales of property, plant and equipment	54	240	481
Proceeds from sales of investments and other assets	1,252	1,978	11,159
Other, net	2	6	17
Net cash used in investing activities	(5,686)	(1,204)	(50,681)
Financing activities:			
Proceeds from long-term loans and borrowings	10,500	9,000	93,591
Repayment of long-term loans and borrowings	(16,873)	(10,586)	(150,396)
Net increase in short-term loans and borrowings	5,000	879	44,567
Cash dividends paid	(391)	(395)	(3,485)
Purchase and sales of treasury shares, net	(0)	(0)	(0)
Net cash used in financing activities	(1,765)	(1,101)	(15,732)
Net (decrease)/increase in cash and cash equivalents	(3,560)	3,361	(31,731)
Cash and cash equivalents at beginning of year	17,161	14,364	152,963
Net effect of currency translation on cash and cash equivalents	(251)	(564)	(2,237)
Cash and cash equivalents at end of year (Note 4)	¥13,350	¥17,161	\$118,994

The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

CORPORATE HISTORY

- 1948** • Founded as Nanbu Shoko Co., Ltd.
- 1949** • Started crystal unit production and sales
- 1950** • Changed the Company's name to Nihon Dempa Kogyo Co., Ltd.
- 1954** • Relocated to newly constructed Head Office and plant in Shibuya-ku, Tokyo
- 1959** • Started crystal filter production
- 1960** • Started crystal oscillator production
- 1962** • Started construction of Sayama Plant in Sayama, Saitama Prefecture
- 1963** • Started mass production of synthetic quartz crystals
 - Crystal cutting facility completed in the Sayama Plant
 - Began trading of NDK stock on the OTC market
- 1964** • Assembly line completed in the Sayama Plant
 - Opened Kansai Sales Office for sales in Osaka
- 1970** • Established production affiliate Hawk Denshi Co., Ltd., in Niigata Prefecture (converted to a subsidiary in 1990 and renamed Niigata NDK Co., Ltd., in 2005)
- 1975** • Opened representative sales office in California, U.S.A.
- 1976** • Established subsidiary Furukawa NDK Co., Ltd., in Miyagi Prefecture
- 1979** • Established subsidiary Asian NDK Crystal Sdn. Bhd. in Selangor, Malaysia
 - Established NDK America, Inc., in California, U.S.A., and dissolved representative sales office
- 1985** • Completed main building at Sayama Plant
- 1986** • Opened Chubu Sales Office for sales in Aichi Prefecture
 - Established production subsidiary Malaysian Quartz Crystal Sdn. Bhd. in Selangor, Malaysia (now NDK Quartz Malaysia Sdn. Bhd.)
 - Completed construction of new facilities at Sayama Plant
- 1988** • Established sales subsidiary NDK Europe Ltd. in the United Kingdom
- 1989** • Established production subsidiary Hakodate NDK Co., Ltd., in Hakodate, Hokkaido
- 1990** • Relocated Head Office functions to Shinjuku-ku, Tokyo
 - Listed NDK stock on the Second Section of the Tokyo Stock Exchange
- 1994** • Established production subsidiary Suzhou NDK Co., Ltd., in Suzhou, China
 - Established sales subsidiary NDK Italy Srl as a subsidiary of NDK Europe Ltd., which is a subsidiary of the parent company
 - ISO 9001 certification obtained
- 1995** • Established sales subsidiary NDK Electronics (HK) Limited in Hong Kong
- 1998** • QS-9000 certification obtained
 - Listed on the First Section of the Tokyo Stock Exchange
- 1999** • ISO 14001 certification obtained
- 2001** • Opened NDK Europe Ltd., German Office, for sales (functions transferred to NDK Germany GmbH upon the establishment of that company as a subsidiary of the parent company in 2008, opened and transferred functions to the German Office in March 2014, commenced NDK Germany GmbH liquidation procedures in April 2014)
- 2002** • Established production subsidiary NDK Crystal, Inc., in Illinois, U.S.A.
 - Established NDK Holdings USA, Inc., in Illinois, U.S.A. as an umbrella holding company holding 100% of the shares in NDK America, Inc., and NDK Crystal, Inc.
 - Established NRS Technologies Inc. in Hakodate, Hokkaido, as a joint venture with NEC
 - Established sales subsidiary NDK-Electronics Shanghai Co., Ltd.
- 2003** • Established NDK Crystal Asia Pte. Ltd. in Singapore as a sales subsidiary of Asian NDK Crystal Sdn. Bhd., which is a subsidiary of the parent company
- 2004** • Opened Chitose Technical Center in Chitose, Hokkaido
- 2005** • NRS Technologies Inc. was merged into Hakodate NDK Co., Ltd.
 - Head Office functions relocated to Sasazuka, Shibuya-ku, Tokyo
- 2006** • Registered Head Office moved from Nishihara, Shibuya-ku, Tokyo, to Sasazuka, Shibuya-ku, Tokyo
- 2008** • Quality Assurance Laboratory recognized by Japan Accreditation Board for Conformity Assessment as meeting the ISO/IEC 17025:2005 international laboratory management standard
 - Obtained approval as a specified exporter from Tokyo Customs
- 2009** • Completed Laboratory ATOM, a new research facility, within the Sayama Plant
 - Established Suzhou NDK Trading Co., Ltd., in Suzhou, China as a subsidiary of Suzhou NDK Co., Ltd., which is a subsidiary of the parent company
- 2010** • NDK became the first company in Japan to adopt IFRS
- 2014** • Subsidiary NDK Italy Srl subsumed in a merger with subsidiary NDK Europe Ltd.
 - ISO 13485 certification obtained
- 2015** • Head Office functions relocated to Sasazuka, Shibuya-ku, Tokyo (within the same area before relocation)
- 2016** • Subsidiary NDK Crystal, Inc. merged with subsidiary NDK Holdings U.S.A., Inc.

GUIDE TO NDK'S WEBSITE

<http://www.ndk.com/en/>



NDK's Website offers investor relations (IR) materials along with other diverse information—such as explanations of our unique technologies—that will enable you to gain a deeper understanding of NDK.

CSR Activities

This section offers information about NDK's broad range of CSR activities, including environment conservation activities and approach towards labor safety and health.

Investor Relations

This section offers such information as materials for explaining financial results, annual reports, etc.

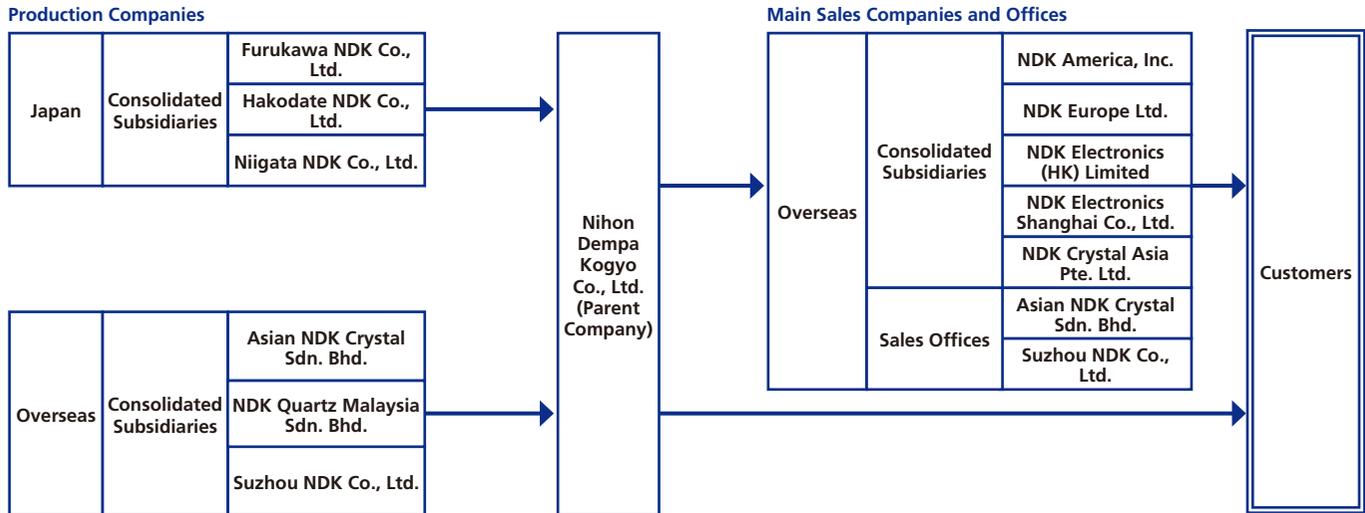
Event Information

This section offers information about NDK's participation in exhibitions.

OVERVIEW OF THE NDK GROUP

The NDK Group is currently comprised of 14 companies, including 4 in Japan and 10 overseas. The Group engages in the integrated manufacture as well as the marketing of crystal-related products, such as crystal devices (e.g., crystal units and crystal oscillators), ultrasonic probes, synthetic quartz crystals, and crystal blanks.

The main companies of the NDK Group are organized as follows.



DIRECTORY

HEAD OFFICE

Nihon Dempa Kogyo Co., Ltd.

Merkmal Keio Sasazuka Bldg.,
1-47-1, Sasazuka,
Shibuya-ku, Tokyo 151-8569, Japan
Phone: 81-3-5453-6711
E-Mail: irmaster@ndk.com

- Osaka Sales Office (in Osaka)
- Chubu Sales Office (in Aichi)
- Sayama Plant (in Saitama)
- Chitose Technical Center (in Hokkaido)

DOMESTIC PRODUCTION SUBSIDIARIES

Furukawa NDK Co., Ltd. (in Miyagi)

Hakodate NDK Co., Ltd. (in Hokkaido)

Niigata NDK Co., Ltd. (in Niigata)

OVERSEAS PRODUCTION SUBSIDIARIES

Asian NDK Crystal Sdn. Bhd.

NDK Quartz Malaysia Sdn. Bhd.
(in Malaysia)

Suzhou NDK Co., Ltd. (in Suzhou, China)

OVERSEAS SALES SUBSIDIARIES

NDK America, Inc. (in Illinois, U.S.A.)

Phone: 1-847-852-4165
E-Mail: sales@ndkxtal.com

- Silicon Valley Office (in Northern California)
Phone: 1-408-428-0800
- Western U.S. Regional Office
(in Southern California)
Phone: 1-949-444-3882
- Eastern U.S. Regional Office (in Pennsylvania)
Phone: 1-717-497-8353

NDK Europe Ltd. (in U.K.)

Phone: 44-20-8547-0500
E-Mail: ndk@uk.ndk.com

- French Office (in France)
Phone: 33-1-60-95-0000
E-Mail: ndk@fr.ndk.com
- Italy Office (in Italy)
Phone: 39-02-9670-2920
E-Mail: ndk@it.ndk.com
- German Office (in Germany)
Phone: 49-7261-4027-0
E-Mail: ndk@uk.ndk.com

NDK Electronics (HK) Limited

(in Hong Kong, China)
Phone: 852-2956-3181

- Taipei Branch (in Taiwan)
Phone: 886-2-2555-0232
E-Mail: sales@tp.ndk.com

NDK Electronics Shanghai Co., Ltd.

(in Shanghai, China)
Phone: 86-21-6278-5115
E-Mail: ndkchina-m@sh.ndk.com

- Shenzhen Branch
(in Shenzhen, China)
Phone: 86-755-2218-2269
E-Mail: sznnew@ndk.com

Suzhou NDK Trading Co., Ltd.

(in Suzhou, China)
Phone: 86-5126-8252071
E-Mail: ndkchina@sz.ndk.com

NDK Crystal Asia Pte. Ltd. (in Singapore)

Phone: 65-6298-9878
E-Mail: ndks@sin.ndk.com

OVERSEAS SALES OFFICES

Asian NDK Crystal Sdn. Bhd.

(in Malaysia)
• Sales/IPC Department
Phone: 60-3-5192-3360
E-Mail: ndk@my.ndk.com

Suzhou NDK Co., Ltd. (in Suzhou, China)

- Sales Department
Phone: 86-5126-8252071

(As of July 1, 2017)

INVESTOR INFORMATION

(As of March 31, 2017)

Date of Foundation: 1948
 Share Capital: ¥10,649,469,744
 Number of Shares of Common Stock: 20,757,905 shares
 (including 1,132,282 shares held in treasury)
 Number of Shareholders: 9,888

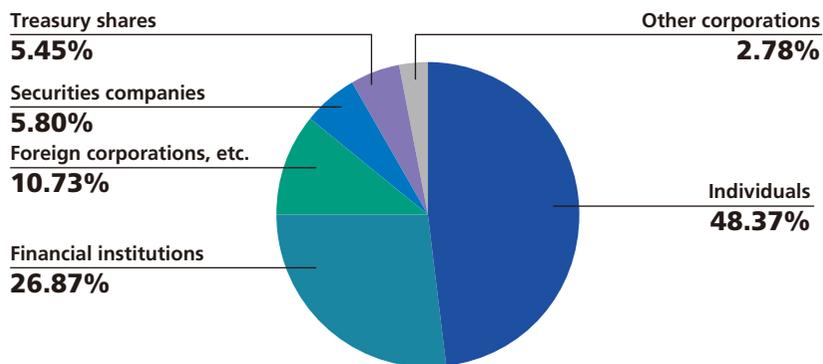
Major Shareholders:

Name	Number of Shares Held (Thousands)	Shareholding Ratio
Japan Trustee Services Bank, Ltd. (Trust Account)	1,030	5.25%
Resona Bank, Ltd.	667	3.40%
Marusan Securities Co., Ltd.	652	3.32%
Toshiaki Takeuchi	622	3.17%
Saitama Resona Bank, Ltd.	610	3.10%
Hiroshi Takeuchi	528	2.69%
The Master Trust Bank of Japan, Ltd. (Trust Account)	463	2.36%
DFA INTL SMALL CAP VALUE PORTFOLIO	449	2.29%
Japan Trustee Services Bank, Ltd. (Trust Account 5)	355	1.81%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	318	1.62%

Notes: 1. The above list of major shareholders excludes treasury shares.

2. Shareholding ratios are calculated with the outstanding shares excluding treasury shares.

Distribution of Ownership among Shareholders: (On a number of shares basis)



Stock Listing: First Section of the Tokyo Stock Exchange
 Fiscal Year-End: March 31
 General Meeting of Shareholders: June

For more detailed information, please contact:

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Crystal Bridge to the Future

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