

QUARTERLY REPORT

(The Third Quarter of the 70th Term)

From October 1, 2017 to December 31, 2017

(TRANSLATION)

ARISAWA MFG. CO., LTD.

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PART I. INFORMATION ON THE BUSINESS

I. General Conditions of Business

1. Changes in Principal Management Indicators, etc.

Term	69 th term consolidated cumulative third quarter	70 th term consolidated cumulative third quarter	69 th term
Accounting period	From April 1, 2016 to December 31, 2016	From April 1, 2017 to December 31, 2017	From April 1, 2016 to March 31, 2017
Net sales (Millions of yen)	25,754	30,325	34,451
Ordinary income (Millions of yen)	2,013	3,193	2,690
Profit attributable to owners of the parent (Millions of yen)	1,478	2,655	2,037
Comprehensive income (Millions of yen)	258	4,708	1,821
Net assets (Millions of yen)	46,948	52,644	48,551
Total assets (Millions of yen)	61,736	72,648	63,808
Net income per share (Yen)	41.53	74.18	57.20
Fully diluted net income per share (Yen)	41.46	73.52	57.06
Equity ratio (%)	72.7	68.7	72.2

Term	69 th term consolidated third quarter	70 th term consolidated third quarter
Accounting period	From October 1, 2016 to December 31, 2016	From October 1, 2017 to December 31, 2017
Net income per share (Yen)	26.71	30.61

- Note: 1. As Arisawa Mfg. Co., Ltd. (hereinafter referred to as either the "Company" or the "Submitting Company", as the case may be) prepares the quarterly consolidated financial statements, the changes in principal management indicators, etc. of the Submitting Company are not stated above.
2. Consumption tax, etc. are not included in the amount of net sales.

2. Description of Business

There was no material change in information regarding the business lines of our corporate group (the Company and its associated companies; hereinafter referred to as either the "Group" or "our Group", as the case may be) in the current consolidated cumulative third quarter.

The changes, with respect to each Reportable segment, of principal associated companies in the current consolidated cumulative third quarter are as follows;

"Electronic materials" segment

In the current consolidated third quarter, one company was added to this segment due to the conversion of Satosen Co., Ltd. into a subsidiary through acquisition of its all stock.

II. Status of Business

1. Business Risks, etc.

The current consolidated cumulative third quarter saw neither any new business risks, etc. emerging nor any significant change in the business risks, etc. stated in the Financial Report for the previous business year.

2. Agreements with Managerial Implications, etc.

In the current consolidated third quarter, there was no decision made on, or execution of, agreements with managerial implications, etc.

3. Analysis of Financial Conditions, Results of Operations and Status of Cash Flows

Matters stated concerning the future in the text are based on judgments made by our Group (the Company and its consolidated subsidiaries) as of the end of the current consolidated third quarter.

(1) Status of Business Results

The Japanese economy in the current consolidated cumulative third quarter, against the backdrop of the government's economic stimulus measures on the monetary and fiscal fronts, etc., remained on an overall slow recovery track. While the economy in Western countries is making a slow recovery, a sense of uncertainty regarding the economic outlook persisted due largely to the general misgivings about the apparent deceleration of growth in most major emerging economies.

Under such circumstances, our group (the Company, its consolidated subsidiaries and the companies accounted for under the equity method) saw a year-on-year upturn in both net sales and operating income as a result of the stagnant demand for electronic materials for use primarily in multifunctional mobile terminals and efforts to improve the profitability of industrial application structural materials.

As a result, the business results for the current consolidated cumulative third quarter showed net sales of 30,325 million yen (representing a 17.7% increase as compared with the year-earlier quarter), an operating income of 2,636 million yen (representing an 129.0% increase as compared with the year-earlier quarter), an ordinary income of 3,193 million yen (representing a 58.6% increase as compared with the year-earlier quarter) and a profit attributable to owners of the parent of 2,655 million yen (representing a 79.6% increase as compared with the year-earlier quarter).

Business results with respect to each segment are as follows.

In this regard, the order of statement of our Group's business segments was revised effective from the current consolidated first quarter, and the following comparisons with the year-earlier quarter are made with figures for the year-earlier quarter reclassified into the segmentation after such change.

1) Electronic materials segment

In the electronic materials segment, net sales were 19,896 million yen, representing a 31.9% increase as compared with the year-earlier quarter and consisting mainly of the sales of our mainstay product, i.e. materials for flexible printed circuit boards (the amount of orders received increased by 33.5%, and the production output increased by 45.6%, as compared with the year-earlier quarter on a non-consolidated basis of the Submitting Company), while the segment income or loss recorded a segment income of 2,332 million yen (an 84.4% increase as compared with the year-earlier quarter).

2) Industrial application structural materials segment

In the industrial application structural materials segment, net sales (consisting mainly of the sales of filament winding molded products as well as honeycomb panels and prepregs for aircraft) were 5,326 million yen, representing a 5.5% decrease as compared with the year-earlier quarter, while the segment income or loss recorded a segment income of 804 million yen (a 94.1% increase as compared with the year-earlier quarter).

3) Electrical insulating materials segment

In the electrical insulating materials segment, net sales (consisting mainly of the sales of prepregs and glass cloth for electrical insulation) were 2,425 million yen, representing a 4.3% increase as compared with the year-earlier quarter, while the segment income or loss recorded a segment income of 455 million yen (a 7.3% increase as compared with the year-earlier quarter).

4) Display materials segment

In the display materials segment, net sales (consisting mainly of the sales of 3D imaging-related materials) were 2,110 million yen, representing a 6.5% increase as compared with the year-earlier quarter, while the segment income or loss recorded a segment loss of 111 million yen (a segment loss of 177 million yen for the year-earlier quarter).

5) Other (other businesses)

In other businesses, net sales were 565 million yen, representing a 22.2% decrease as compared with the year-earlier quarter, while the segment income or loss recorded a segment income of 181 million yen (a 15.9% increase as compared with the year-earlier quarter).

It should also be noted that the amounts of net sales, orders received, etc. stated in this section do not include consumption tax, etc.

(2) Business and Financial Tasks to be Addressed

There was no significant change in the tasks to be addressed by our Group in the current consolidated cumulative third quarter.

In this regard, the Company has a basic policy in place as to how the persons controlling the Company's financial and business policymaking shall act, and the contents, etc. of such basic policy (the matters set forth in Article 118, item 3 of the Ordinance for Enforcement of the Companies Act) are as follows.

- 1) Contents of the basic policy and the efforts toward the realization of the basic policy (including, but not limited to, effective utilization of the assets of the Company and formation of an appropriate corporate group)

The Company, ever since its initiation in 1909, has been working on technological innovations and product development to build up unique technologies that integrate the “weaving, coating and molding” elements of its expertise while consistently fulfilling users' needs, thereby increasing its corporate value under favorable labor-management climate. The Company's Board of Directors believes that the Company is obligated to adhere to such time-honored principle of nurturing technological accumulation and also to understand, foster and enhance the said corporate value in the long run.

In light of the above, our Group stands on a management policy centering on the motto “Creation, Innovation and Challenge” as we aim to enhance profitability through creation of new business bases and new markets with the utmost emphasis on the pursuit of safety and quality.

- 2) Efforts to prevent inappropriate persons from controlling the Company's financial and business policymaking

Stock markets in late years witnessed such takeover methods that, for instance, force through large-scale purchases of shares without providing sufficient explanation to, or consultation with, the shareholders and the management of the target company. Many of the takeovers using such methods apparently entail erosion of corporate value and forced sales of shares, etc. to the detriment of shareholders' interests.

Such being the case, we acknowledged the need to ensure proper disclosure of necessary and sufficient information and also secure the time required for examination and consideration of an offer to purchase by presenting a set of rules and procedures for large-block purchasers and purchase offerors (hereinafter individually referred to as a “Purchaser”) to comply with. Thus the Company, pursuant to the provisions of its Articles of Incorporation, established the measures to address large-scale acquisitions of the Company's shares (hereinafter referred to as the “Rules”) and obtained the shareholders' approval of the Rules at the 69th Ordinary General Meeting of Shareholders held on June 28, 2017.

In the event that: (i) invocation of a countermeasure is approved under the Rules at a general meeting of shareholders, etc. held to confirm the shareholders' intentions; (ii) the Purchaser does not comply with the Rules; or (iii) it is evident that a large-scale acquisition of the Company's shares or any similar act or an offer of any of such acts (hereinafter individually referred to as a “Purchase”) will impair the Company's corporate value, the countermeasure(s) shall be invoked in accordance with the Rules.

(For the details of the Rules, please refer to the Company's website at: <http://www.arisawa.co.jp/>)

- 3) The fact that the aforesaid efforts, in accordance with the basic policy, do not erode the Company's

corporate value and the common interests of the shareholders and that such efforts do not aim to maintain the status of the Company's directors and officers

The Company's Board of Directors believes that, with the Company's shares listed on the stock exchange for unfettered trading by the investors, a large-scale purchase of the Company's shares conducted against the will of the Company's Board of Directors or an offer to purchase entailing a change of control of the Company should not be ruled out by the Company's Board of Directors if and to the extent that such acts contribute to the common interests of the shareholders through enhancement of the Company's corporate value, and so the final judgment as to the said acts should be made collectively by the shareholders of the Company.

If and when such Purchase is conducted, we deem it best to collect detailed information from the Purchaser and provide the shareholders with sufficient levels of disclosure (in order for the shareholders to make a proper judgment) and also to have the Company's Board of Directors express its opinions, inviting the shareholders to directly express their intentions at a general meeting of shareholders, etc. as to which of the cases is more conducive to securing and enhancing the Company's corporate value and the common interests of the shareholders. The Rules set forth as follows:

a. Judgment by direct resolution of the shareholders

The Rules provide that the shareholders shall directly pass judgment on whether an offer to purchase made by a Purchaser should be approved, except where the Purchaser does not comply with the Rules, etc. It is virtually impossible, in the process and procedures of confirming the shareholders' intentions, for a director of the Company to make individual solicitations, etc. in pursuit of his or her own interests, and no room is left for an arbitrary intent of any of the Company's directors to impinge on the shareholders' intentions.

b. Restrictions on invocation of countermeasures by the judgment of the Board of Directors

Invocation by the Company's Board of Directors of a countermeasure without confirming the shareholders' intentions is possible only when any breach of the Rules or erosion of the Company's corporate value and the common interests of the shareholders is evident, and also the so-called "sunset clause" is attached to limit the valid term of the Rules to approximately two (2) years.

Therefore, the Company's Board of Directors believes that this "Basic Policy for the Control of Kabushiki-Kaisha" represents the Company's efforts to secure and maintain the Company's corporate value and the common interests of the shareholders and that such basic policy does not impair the interests of the Company's shareholders.

(3) Research and Development Activities

The Group's total expenses for research and development activities incurred in the current consolidated cumulative third quarter amounted to 1,415 million yen.

In this regard, there was no significant change in the status of research and development activities of our Group in the current consolidated cumulative third quarter.

III. Status of the Submitting Company

1. Status of Shares, etc.

(1) Total Number of Shares, etc.

1) Total number of shares

Class	Total number of shares authorized to be issued
Common stock	130,000,000
Total	130,000,000

2) Shares issued and outstanding

Class	Number of shares issued and outstanding as of the end of the third quarter (As of December 31, 2017)	Number of shares issued and outstanding as of the filing date of this Quarterly Report (As of February 14, 2018)	Name of financial instruments exchange where the shares are listed or authorized financial instruments firms association where the shares are registered	Remarks
Common stock	35,957,924	35,989,024	Tokyo Stock Exchange (First Section)	Number of shares constituting one full unit: 100
Total	35,957,924	35,989,024	---	---

Note: The number of shares issued through the exercise of stock acquisition rights in the period from February 1, 2018 to the filing date of this Quarterly Report is not included in the column "Number of shares issued and outstanding as of the filing date of this Quarterly Report".

(2) Status of Stock Acquisition Rights, etc.

No applicable matter.

(3) Status of Exercise of Moving Strike Convertible Bonds, etc.

No applicable matter.

(4) Details of Rights Plan

No applicable matter.

(5) Changes in the Number of Shares Issued and Outstanding, Capital Stock, etc.

Period	Number of shares issued and outstanding		Capital stock (Thousands of yen)		Legal capital surplus (Thousands of yen)	
	Change	Balance	Change	Balance	Change	Balance
From October 1, 2017 to December 31, 2017 (See Note 1)	102,800	35,957,924	46,227	7,428,353	46,202	6,540,332

Note: 1. The increases are due to the exercise of stock acquisition rights.

2. In the period from January 1, 2018 to January 31, 2018, the number of shares issued and outstanding increased by 31,100 shares, and the amount of capital stock and that of legal capital surplus increased by 14,352 thousand yen respectively, all through the exercise of stock acquisition rights.

(6) Status of Major Shareholders

As the current quarterly accounting period is the third quarter, there is no matter to be stated.

(7) Status of Voting Rights

Since the “Status of Voting Rights” as of the end of the current third quarter cannot be stated herein as the relevant entries in the shareholder registry have yet to be confirmed, it is stated based on the shareholder registry as of the most recent record date (September 30, 2017).

1) Shares issued and outstanding

As of December 31, 2017

Category	Number of shares	Number of voting rights (Units)	Remarks
Shares without voting rights	---	---	---
Shares with restricted voting rights (Treasury stock, etc.)	---	---	---
Shares with restricted voting rights (Other)	---	---	---
Shares with full voting rights (Treasury stock, etc.)	Common stock 6,800	---	---
Shares with full voting rights (Other)	Common stock 35,760,900	357,609	---
Shares constituting less than one full unit	Common stock 87,424	---	---
Number of shares issued and outstanding	35,855,124	---	---
Total number of voting rights held by shareholders	---	357,609	---

Note: 1. 500 shares held in the name of Japan Securities Depository Center, Inc. are included in the row “Shares with full voting rights (Other)”. 5 units of voting rights pertaining to shares with full voting rights held in the name of Japan Securities Depository Center, Inc. are included in the column “Number of voting rights”.

2. 56 shares of treasury stock are included in the row "Shares constituting less than one full unit".

2) Treasury Stock, etc.

As of December 31, 2016

Name and address of shareholder		Number of shares held			Ratio of the number of shares held to the number of shares issued and outstanding (%)
Full name or corporate name	Address	Under own name	Under the names of others	Total	
Arisawa Mfg. Co., Ltd.	5-5, Minami-honcho 1-chome, Joetsu-shi, Niigata	6,800	---	6,800	0.01
Total	---	6,800	---	6,800	0.01

2. Status of Directors and Officers

No applicable matter.

IV. Status of Accounting

1. Method of Preparation of Quarterly Consolidated Financial Statements

The quarterly consolidated financial statements of the Company are prepared in compliance with the “Regulations for Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements” (Cabinet Office Ordinance No. 64 of 2007).

2. Certification of Audit

The Company received a quarterly review of its quarterly consolidated financial statements for the current consolidated third quarter (From October 1, 2017 to December 31, 2017) and the current consolidated cumulative third quarter (From April 1, 2017 to December 31, 2017) conducted by Ernst & Young ShinNihon LLC under the provisions of Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act.

1. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

	(Thousands of yen)	
	Previous consolidated fiscal year (As of March 31, 2017)	Current consolidated third quarter (As of December 31, 2017)
Assets		
Current assets		
Cash and deposits	7,667,985	8,156,961
Notes and accounts receivable-trade	12,618,700	* 15,780,632
Securities	797,550	1,463,181
Merchandise and finished goods	2,602,353	2,813,907
Work in process	1,301,381	1,842,975
Raw materials and supplies	2,095,419	2,998,427
Other	1,331,705	1,912,562
Allowance for doubtful accounts	△127,077	△703,534
Total current assets	28,288,018	34,265,114
Non-current assets		
Property, plant and equipment	11,065,403	11,658,988
Intangible assets		
Other	65,486	473,665
Total intangible assets	65,486	473,665
Investments and other assets		
Investment securities	23,864,265	25,566,346
Other	707,162	890,661
Allowance for doubtful accounts	△181,927	△206,240
Total investments and other assets	24,389,500	26,250,766
Total non-current assets	35,520,391	38,383,420
Total assets	63,808,409	72,648,535

(Thousands of yen)

	Previous consolidated fiscal year (As of March 31, 2017)	Current consolidated third quarter (As of December 31, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	5,168,250	* 6,777,583
Short-term loans payable	2,908,630	3,888,563
Current portion of long-term loans payable	446,754	586,789
Current portion of bonds	—	36,800
Income taxes payable	362,974	519,830
Provision for bonuses	447,415	312,442
Provision for directors' bonuses	3,573	5,058
Provision for product warranties	169	126
Other	2,341,381	* 2,615,511
Total current liabilities	11,679,149	14,742,704
Non-current liabilities		
Bonds payable	—	164,800
Long-term loans payable	1,836,093	2,048,725
Net defined benefit liability	558,112	583,249
Asset retirement obligations	57,448	92,729
Other	1,126,306	2,371,573
Total non-current liabilities	3,577,960	5,261,078
Total liabilities	15,257,109	20,003,783
Net assets		
Shareholders' equity		
Capital stock	7,317,019	7,428,353
Capital surplus	6,429,038	6,540,332
Retained earnings	30,740,318	32,695,536
Treasury stock	△3,891	△4,386
Total shareholders' equity	44,482,485	46,659,835
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	942,763	2,516,660
Deferred gains or losses on hedges	5,153	—
Foreign currency translation adjustment	808,002	917,079
Remeasurements of defined benefit plans	△187,018	△174,327
Total accumulated other comprehensive income	1,568,901	3,259,411
Subscription rights to shares	143,292	128,418
Non-controlling interests	2,356,620	2,597,086
Total net assets	48,551,300	52,644,752
Total liabilities and net assets	63,808,409	72,648,535

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income

[Quarterly Consolidated Statements of Income]

[Consolidated cumulative third quarter]

(Thousands of yen)

	Previous consolidated cumulative third quarter (From April 1, 2016 to December 31, 2016)	Current consolidated cumulative third quarter (From April 1, 2017 to December 31, 2017)
Net sales	25,754,579	30,325,502
Cost of sales	21,506,013	24,382,712
Gross profit	4,248,566	5,942,789
Selling, general and administrative expenses	3,097,030	3,306,235
Operating income	1,151,535	2,636,553
Non-operating income		
Interest income	250,158	237,864
Dividends income	88,664	88,389
Share of profit of entities accounted for using equity method	335,408	382,051
Other	326,840	340,889
Total non-operating income	1,001,071	1,049,193
Non-operating expenses		
Interest expenses	36,314	50,522
Provision of allowance for doubtful accounts	—	329,049
Other	103,214	112,652
Total non-operating expenses	139,529	492,224
Ordinary income	2,013,077	3,193,522
Extraordinary income		
Gain on sales of non-current assets	2	2,960
Gain on sales of securities	13,222	507,155
Insurance income	129,723	—
Other	9,675	10,904
Total extraordinary income	152,623	521,020
Extraordinary losses		
Loss on valuation of investment securities	—	63,595
Other	33,605	7,967
Total extraordinary losses	33,605	71,562
Income before income taxes	2,132,094	3,642,980
Income taxes	561,669	759,050
Profit	1,570,425	2,883,929
Profit attributable to non-controlling interests	91,554	228,230
Profit attributable to owners of the parent	1,478,870	2,655,699

[Quarterly Consolidated Statements of Comprehensive Income]

[Consolidated cumulative third quarter]

(Thousands of yen)

	Previous consolidated cumulative third quarter (From April 1, 2016 to December 31, 2016)	Current consolidated cumulative third quarter (From April 1, 2017 to December 31, 2017)
Profit	1,570,425	2,883,929
Other comprehensive income		
Valuation difference on available-for-sale securities	515,800	1,574,004
Deferred gains or losses on hedges	—	△5,153
Foreign currency translation adjustment	△1,367,649	288,024
Remeasurements of defined benefit plans	6,964	7,238
Share of other comprehensive income of entities accounted for using equity method	△467,142	△39,705
Total other comprehensive income	△1,312,027	1,824,407
Comprehensive income	258,397	4,708,337
(Breakdown)		
Comprehensive income attributable to owners of the parent	701,137	4,346,209
Comprehensive income attributable to non-controlling interests	△442,740	362,127

[Notes]

(Change in the scope of consolidation or application of equity method)

(1) Material change in the scope of consolidation

From the consolidated third quarter, Satosen Co., Ltd. is included in the scope of consolidation due to the conversion of the said company into a subsidiary through acquisition of its all stock.

(2) Material change in the scope of application of equity method

DDD Group plc, going into liquidation, was excluded from the scope of application of equity method in the consolidated third quarter due to its decreased materiality of impact.

(Particular accounting treatments applied in preparation of quarterly consolidated financial statements)

<Calculation of tax expenses>

Tax expenses are calculated by multiplying the quarterly income before income taxes by an estimated effective tax rate. Such effective tax rate is reasonably estimated after applying tax effect accounting to the income before income taxes for the consolidated fiscal year including the current consolidated third quarter.

(Notes Related to Quarterly Consolidated Balance Sheets)

* Notes, etc. maturing at the end of the consolidated third quarter

For accounting treatment of notes, electronically recorded monetary claims and electronically recorded obligations maturing at the end of the consolidated third quarter, settlement is made as of the clearing date of each note or as of the settlement date of each electronically recorded monetary claim and electronically recorded obligation, as the case may be. As the end of the current consolidated third quarter falls on a bank holiday, the following notes, electronically recorded monetary claims and electronically recorded obligations maturing at the end of the consolidated third quarter are included in their respective balances as of the end of the consolidated third quarter.

(Thousands of yen)

	Previous consolidated fiscal year (As of March 31, 2017)	Current consolidated third quarter (As of December 31, 2017)
Notes and accounts receivable-trade	-	132,599
Notes and accounts payable-trade	-	149,161
Current liabilities and others (Notes payable-facilities, Electronically recorded obligations-non-operating)	-	303

(Notes Related to Quarterly Consolidated Statements of Cash Flows)

Quarterly consolidated statements of cash flows for the current consolidated cumulative third quarter were not prepared. In this regard, the amounts of depreciation (including amortization of intangible assets except for goodwill), amortization of goodwill and amortization of negative goodwill for the previous and current consolidated cumulative third quarters are as follows.

(Thousands of yen)

	Previous consolidated cumulative third quarter (From April 1, 2016 to December 31, 2016)	Current consolidated cumulative third quarter (From April 1, 2017 to December 31, 2017)
Depreciation	1,229,031	1,230,549
Amortization of goodwill	89	-

(Notes Related to Shareholders' Equity, etc.)

I Previous consolidated cumulative second quarter (From April 1, 2016 to December 31, 2016)

Dividends paid

(Resolution)	Class of shares	Total amount of dividends (Thousands of yen)	Dividend per share (Yen)	Record date	Effective date	Source of dividends
Ordinary General Meeting of Shareholders of June 24, 2016	Common stock	818,912	23.00	March 31, 2016	June 27, 2016	Retained earnings

II Current consolidated cumulative second quarter (From April 1, 2017 to December 31, 2017)

Dividends paid

(Resolution)	Class of shares	Total amount of dividends (Thousands of yen)	Dividend per share (Yen)	Record date	Effective date	Source of dividends
Ordinary General Meeting of Shareholders of June 28, 2017	Common stock	713,461	20.00	March 31, 2017	June 29, 2017	Retained earnings

(Segment Information, etc.)

[Segment Information]

I Previous consolidated cumulative third quarter (From April 1, 2016 to December 31, 2016)

1. Information on the amount of net sales and income or loss with respect to each reportable segment

(Thousands of yen)

	Reportable segment					Other (See Note)	Total
	Electronic materials	Industrial application structural materials	Electrical insulating materials	Display materials	Subtotal		
Net sales							
Net sales to external customers	15,082,400	5,639,261	2,324,953	1,981,078	25,027,694	726,884	25,754,579
Inter-segment sales or transfers	—	—	—	—	—	566,198	566,198
Total	15,082,400	5,639,261	2,324,953	1,981,078	25,027,694	1,293,083	26,320,777
Segment income or loss (Δ)	1,264,775	414,563	424,358	Δ 177,411	1,926,286	156,482	2,082,768

Note: The column "Other" represents business operations that do not fall under any of the reportable segments and includes the related goods sales, the logistics-related operations and other businesses, etc.

2. Difference between the aggregate amount of income or loss of reportable segments and the pertinent amount shown on the quarterly consolidated statements of income as well as the key components of such difference (Matters concerning difference adjustment)

(Thousands of yen)

Income	Amount
Total of reportable segments	1,926,286
Income in the category "Other"	156,482
Elimination of inter-segment transactions	Δ 52,270
Amortization of goodwill	Δ 89
Unallocated corporate expenses (See Note)	Δ 859,993
Adjustment of inventories	Δ 18,879
Operating income shown on the quarterly consolidated statements of income	1,151,535

Note: Unallocated corporate expenses are mostly general and administrative expenses that are not attributable to any of the reportable segments.

3. Information on impairment loss on non-current assets or goodwill, etc. with respect to each reportable segment

No applicable matter.

II Current consolidated cumulative third quarter (From April 1, 2017 to December 31, 2017)

1. Information on the amount of net sales and income or loss with respect to each reportable segment

(Thousands of yen)

	Reportable segment					Other (See Note)	Total
	Electronic materials	Industrial application structural materials	Electrical insulating materials	Display materials	Subtotal		
Net sales							
Net sales to external customers	19,896,877	5,326,627	2,425,983	2,110,567	29,760,055	565,446	30,325,502
Inter-segment sales or transfers	—	—	—	—	—	625,277	625,277
Total	19,896,877	5,326,627	2,425,983	2,110,567	29,760,055	1,190,723	30,950,779
Segment income or loss (Δ)	2,332,550	804,644	455,288	△111,752	3,480,730	181,340	3,662,070

Note: The column "Other" represents business operations that do not fall under any of the reportable segments and includes the related goods sales, the logistics-related operations and other businesses, etc.

2. Difference between the aggregate amount of income or loss of reportable segments and the pertinent amount shown on the quarterly consolidated statements of income as well as the key components of such difference (Matters concerning difference adjustment)

(Thousands of yen)

Income	Amount
Total of reportable segments	3,480,730
Income in the category "Other"	181,340
Elimination of inter-segment transactions	△68,191
Unallocated corporate expenses (See Note)	△931,336
Adjustment of inventories	△25,988
Operating income shown on the quarterly consolidated statements of income	2,636,553

Note: Unallocated corporate expenses are mostly general and administrative expenses that are not attributable to any of the reportable segments.

3. Matters concerning changes in reportable segments, etc.

The categorization, introduced in the consolidated first quarter, of reportable segments was changed due to the liquidation of a subsidiary so that the "Related goods sales", which was categorized as a reportable segment, is incorporated into the "Other".

In this regard, the segment information for the previous consolidated cumulative third quarter is reported on the basis of the reportable segments reflecting the said change in categorization.

4. Information on impairment loss on non-current assets or goodwill, etc. with respect to each reportable segment

(Material change of the amount of goodwill)

Regarding the "Electronic materials" segment, Satosen Co., Ltd. is included in the scope of consolidation, due to the acquisition of stock of the said company, from the consolidated third quarter. The increased amount of goodwill by the said event is 407,899 thousand yen for the current consolidated cumulative third quarter. The amount of goodwill is calculated tentatively because the distribution of acquisition cost has not been completed.

(Business Combinations)

(Notes to business combinations by acquisition)

1. Outline of the business combination

(1) Names of acquired companies and their business lines

Name of acquired company : Satosen Co., Ltd.

Business of acquired company: Manufacturing and selling of industrial printed circuit boards

(2) Main reasons for business combination

The company is engaged in designing and prototyping printed wiring boards to mass production. We believe that by transforming the company with high technical strength and product development capability into a subsidiary, we can realize synergistic effects and further enhance the corporate value of the Group.

(3) Date of business combination

November 30, 2017

(4) Legal form of business combination

Acquisition of shares

(5) Company name after combination

Satosen Co., Ltd.

(6) Ratio of voting rights acquired

100%

(7) Main basis for determining the acquiring company

The Company acquires shares of Satosen Co., Ltd. in consideration for cash paid.

2. Period for which the operating results of the acquired company are included in the consolidated financial statements

The accompanying consolidated statement of income does not include the statement of income of the acquiree as the Company consolidated only the balance sheet of the acquiree as of December 31, 2017.

3. Acquisition cost of the acquired companies and breakdown by type of consideration

Consideration for acquisition	Cash	650,000 thousand yen
Acquisition cost		650,000 thousand yen

4. Amount, cause, amortization method and amortization period of goodwill incurred

(1) Amount of goodwill arising from the business combination

407,899 thousand yen

(2) Cause of the goodwill

The goodwill arose due to Satosen Co.'s future additional earnings power that is expected from future business development.

(3) Amortization method and period

Straight-line amortization over the period in which the effect of the acquisition continues. Additionally the amortization period is to be determined based on the result of purchase price allocation.

(Per Share Information)

The amounts of net income per share and fully diluted net income per share with their respective bases of calculation are as follows.

	Previous consolidated cumulative third quarter (From April 1, 2016 to December 31, 2016)	Current consolidated cumulative third quarter (From April 1, 2017 to December 31, 2017)
(1) Net income per share	41.53 yen	74.18 yen
(Basis of calculation)		
Profit attributable to owners of the parent (Thousands of yen)	1,478,870	2,655,699
Amount not attributable to common stockholders (Thousands of yen)	—	—
Profit attributable to owners of the parent pertaining to common stock (Thousands of yen)	1,478,870	2,655,699
Average number of shares of common stock during the period	35,608,925	35,802,682
(2) Fully diluted net income per share	41.46 yen	73.52 yen
(Basis of calculation)		
Adjustment of profit attributable to owners of the parent (Thousands of yen)	---	---
Increase in the number of shares of common stock	60,613	318,324
Outline of dilutive shares that were not included in the calculation of fully diluted net income per share due to a lack of dilutive effect and also underwent a significant change after the end of the previous consolidated fiscal year	---	---

(Significant Subsequent Events)

No applicable matter.

2. Other

No applicable matter.

PART II. INFORMATION ON GUARANTY COMPANIES, ETC. OF THE SUBMITTING COMPANY

No applicable matter.

Independent Auditors' Quarterly Review Report

February 14, 2018

To the Board of Directors of Arisawa Mfg. Co., Ltd.

Ernst & Young ShinNihon LLC

Satoshi Ejima [Seal]
Designated Limited Liability Partner and Engagement Partner,
Certified Public Accountant

Makoto Iguchi [Seal]
Designated Limited Liability Partner and Engagement Partner,
Certified Public Accountant

We have conducted, under the provisions of Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act, a quarterly review of the quarterly consolidated financial statements of Arisawa Mfg. Co., Ltd. listed in the "Status of Accounting" for the consolidated third quarter (From October 1, 2017 to December 31, 2017) and the consolidated cumulative third quarter (From April 1, 2017 to December 31, 2017) of the consolidated fiscal year from April 1, 2017 to March 31, 2018, consisting of the quarterly consolidated balance sheets, quarterly consolidated statements of income, quarterly consolidated statements of comprehensive income and notes.

Responsibility of Management for the Quarterly Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the quarterly consolidated financial statements in accordance with the standards for preparation of quarterly consolidated financial statements generally accepted in Japan. This includes improvement and operation of such internal control as the management deems necessary for the preparation and fair presentation of quarterly consolidated financial statements free from material misstatement, whether due to fraud or error.

Responsibility of Auditors

Our responsibility is to express a conclusion on the quarterly consolidated financial statements from an independent standpoint based on our quarterly review. We conducted our quarterly review in accordance with the quarterly review standards generally accepted in Japan.

A quarterly review consists principally of making inquiries to the management and the persons responsible for financial and accounting matters, etc., applying analytical procedures and conducting other quarterly review procedures. The quarterly review procedures are less exhaustive than the procedures for annual financial statement audits conducted in accordance with the audit standards generally accepted in Japan.

We believe that the evidence we have obtained provides a basis for our conclusion.

Conclusion of Auditors

In our quarterly review, no matter has come to our attention that causes us to believe that the above quarterly consolidated financial statements do not fairly present, in any material respect, the financial conditions of Arisawa Mfg. Co., Ltd. and its consolidated subsidiaries as of December 31, 2017 and the results of their operations in the consolidated cumulative third quarter ended December 31, 2017 in accordance with the standards for preparation of quarterly consolidated financial statements generally accepted in Japan.

Interest

There exists no special interest between the Company and this audit corporation or its engagement partners which is required to be stated pursuant to the provisions of the Certified Public Accountants Act.

Note: 1. All the matters stated above have been electronically copied from the matters stated in the original quarterly review report. The original quarterly review report is separately archived by the Company (the company submitting the Quarterly Report).
2. XBRL data are not included in the subject of the quarterly review.