

Financial Results of 2016

KATAKURA INDUSTRIES CO., LTD.

(Code 3001, TSE 1st section)

February 23, 2017

1. Financial Highlights of 2016

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Consolidated Income Statement / Business Segment Sales

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Capital Expenditures, Depreciation and R&D Expenditures Forecast

3. Dividends and Dividend Policy

1. Financial Highlights of 2016

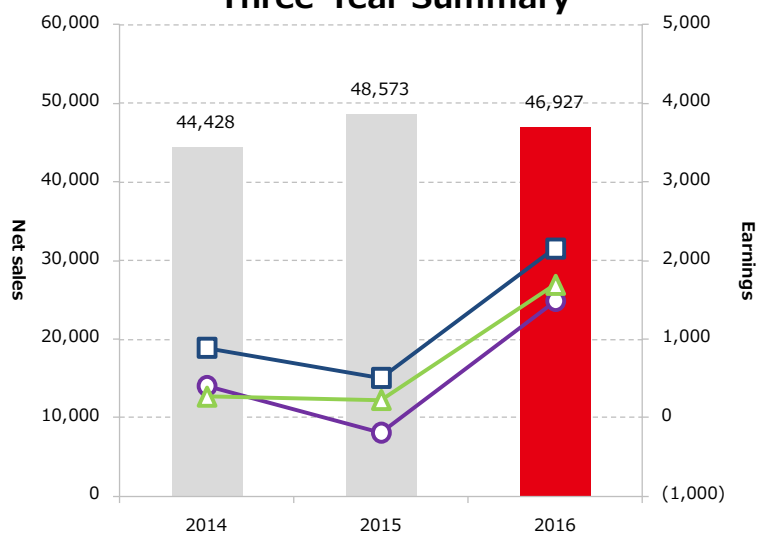
Consolidated Income Statement

Machinery sales decreased due to sales of large-capacity water pump cars in 2015, but earnings increased due to annual contribution of a shopping center opened in 2015 and an improvement in pharmaceuticals.

(Million yen)

	2016Actual		2015Actual		YoY change	2016Forecast		Actual vs. Forecast
	A	Pct.of sales	B	Pct.of sales	A-B	C	Pct.of sales	A-C
Net sales	46,927	100.0%	48,573	100.0%	(1,646)	47,800	100.0%	(873)
Operating income	1,486	3.2%	(190)	▲ 0.4%	1,676	1,400	2.9%	86
Ordinary income	2,152	4.6%	507	1.0%	1,645	1,900	4.0%	252
Profit attributable to owners of parent	1,691	3.6%	226	0.5%	1,465	1,700	3.6%	(9)

Three-Year Summary



■ Net sales ○ Operating income □ Ordinary income ▲ Profit attributable to owners of parent

【 Net sales 】
 • Machinery : Down ¥3,200mn
 • Real Estate : Up ¥1,200mn

【 Operating income 】
 • Real Estate : Up ¥1,000mn
 • Pharmaceuticals : Up ¥700mn

【 Net sales 】
 • Pharmaceuticals : Down ¥700mn

【 Operating income 】
 • Real Estate : Up ¥200mn
 • Textiles : Down ¥200mn

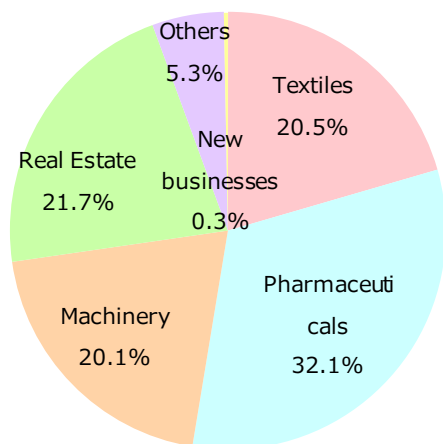
Consolidated Income Statement / Business Segment Sales

(Million yen)

	2016Actual		2015Actual		YoY change	2016Forecast		Actual vs. Forecast
	A	Pct.	B	Pct.	A-B	C	Pct.	A-C
Net sales	46,927	100.0%	48,573	100.0%	(1,646)	47,800	100.0%	(873)
Textiles	9,635	20.5%	9,652	19.9%	(17)	9,700	20.3%	(65)
Pharmaceuticals	15,065	32.1%	14,903	30.7%	162	15,800	33.1%	(735)
Machinery	9,412	20.1%	12,607	25.9%	(3,195)	9,500	19.9%	(88)
Real Estate	10,188	21.7%	8,982	18.5%	1,206	10,200	21.3%	(12)
Others	2,502	5.3%	2,375	4.9%	127	2,450	5.1%	52
New businesses	124	0.3%	52	0.1%	72	150	0.3%	(26)



Business Segment Sales



【Machinery】

- Sales down due to recording of large sales for large-capacity water pump cars and others in 2015

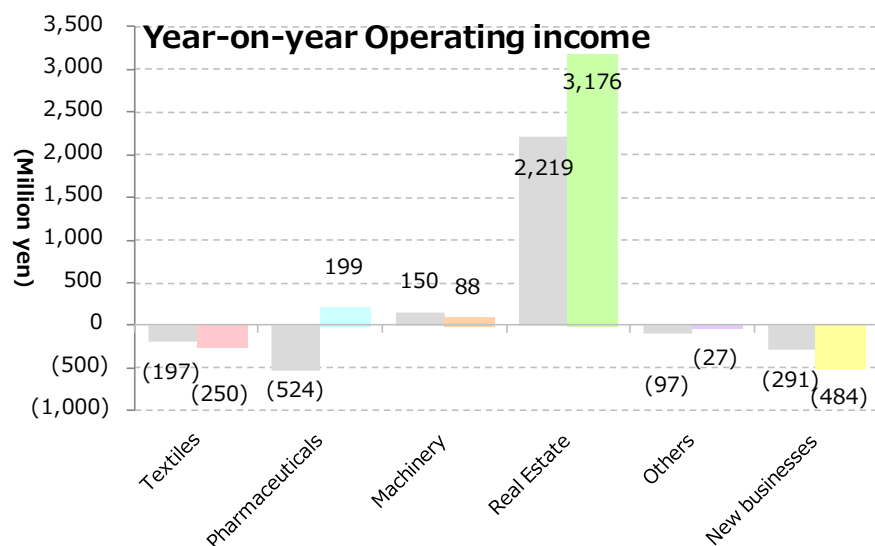
【Real Estate】

- Annual contribution from COCOON2 (opened April 2015) and COCOON3 (opened July 2015)
- Annual contribution from leasing income at the Matsumoto company-owned land development (from November 2015)

Consolidated Income Statement / Business Segment Operating Income

(Million yen)

	2016Actual	2015Actual	YoY change	2016Forecast	Actual vs. Forecast
	A	B	A-B	C	A-C
Operating income	1,486	(190)	1,676	1,400	86
Textiles	(250)	(197)	(53)	(100)	(150)
Pharmaceuticals	199	(524)	723	200	(1)
Machinery	88	150	(62)	100	(12)
Real Estate	3,176	2,219	957	3,000	176
Others	(27)	(97)	70	0	(27)
New businesses	(484)	(291)	(193)	(500)	16
adjustments	(1,216)	(1,450)	234	(1,300)	84



【Pharmaceuticals】

- Earnings higher due to approval of the manufacture and sale of Cibenol, a treatment for arrhythmia, which was transferred to Katakura
- Bisoно Tape, a transdermal patch of β 1 blocker, grew steadily

【Real Estate】

- Big increase in earnings resulting from sales growth and grand opening marketing expenses recorded in the previous year

Steady repayment of loans related to real estate development

(Million yen)

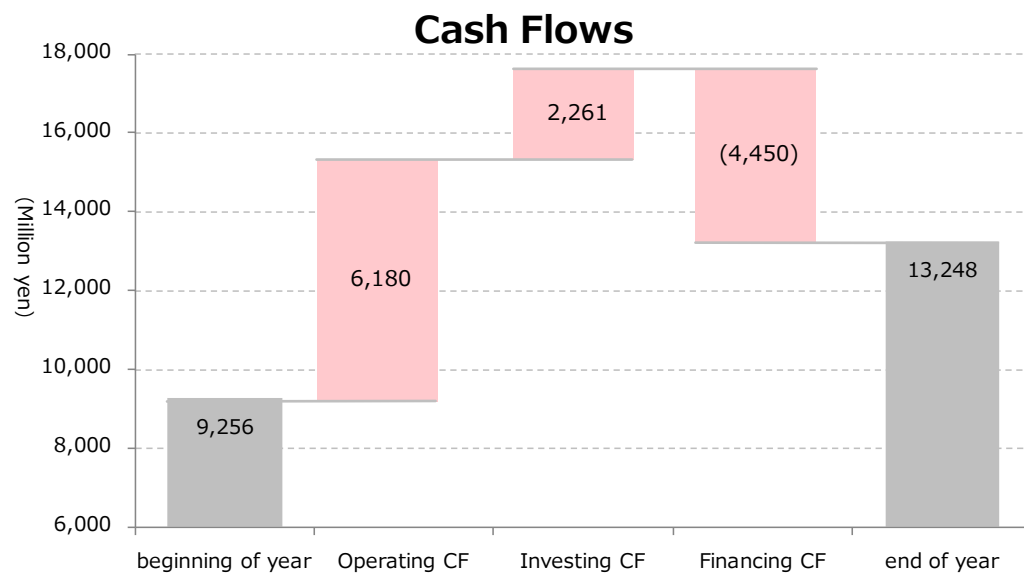
	2016.12	2015.12	YoY change
	A	B	A-B
Current assets	54,228	55,290	(1,062)
Non-current assets	90,430	95,646	(5,216)
Property, plant and equipment	51,509	53,401	(1,892)
Intangible assets	1,350	848	502
Investments and other assets	37,570	41,397	(3,827)
Investment securities	34,635	37,490	(2,855)
Total assets	144,659	150,936	(6,277)
Total liabilities	65,752	71,632	(5,880)
Loans	19,649	23,345	(3,696)
Lease and guarantee deposits	9,810	9,833	(23)
Deferred tax liabilities	10,294	11,979	(1,685)
Total net assets	78,906	79,304	(398)
Valuation difference on available-for-sale securities	16,349	17,508	(1,159)
Total liabilities and net assets	144,659	150,936	(6,277)

• Repayment of loans related to real estate development

• Down because of partial sales of investment securities and valuation difference in market values

(Million yen)

	2015Actual	2016Actual
Cash and cash equivalents at beginning of year	5,758	9,256
Operating cash flows	3,007	6,180
Investing cash flows	(6,767)	2,261
Financing cash flows	7,258	(4,450)
Net increase (decrease) in cash and cash equivalents	3,498	3,991
Cash and cash equivalents at end of year	9,256	13,248



【Operating cash flows】
 • Mainly due to profits

【Investing cash flows】
 • Purchase of property, plant and equipment : Down ¥1,600mn
 • Proceeds from redemptions of securities : Up ¥2,000mn
 • Proceeds from sales of investment securities : Up 1,400mn

【Financing cash flows】
 • Repayments of long-term loans payable : Down ¥3,100mn
 • Payments of dividends : Down ¥400mn

Development of company-owned land increased capital expenditures

(Million yen)

	2016Actual	2015Actual	YoY change
	A	B	A-B
Capital expenditures	3,135	12,800	(9,665)
Pharmaceuticals	1,394	950	444
Real Estate	1,048	10,660	(9,612)
Other Segment	693	1,190	(497)

【 Real Estate 】
 ・ Major plant and equipment investment related to COCOON2 in the previous year

Depreciation	4,113	3,842	271
Pharmaceuticals	1,345	1,458	(113)
Real Estate	2,086	1,884	202
Other Segment	682	500	182

【 Real Estate 】
 ・ First full year depreciation of COCOON2

R&D Expenditures	2,567	3,138	(571)
Pharmaceuticals	2,285	2,684	(399)
New businesses	40	196	(156)
Other Segment	242	258	(16)

【 Pharmaceuticals 】
 ・ Decrease in clinical trial expenses for additional indication for a drug

2. 2017 Forecast

In the first year of the medium-term plan "Katakura 2021," efforts were made to increase machinery sales and improve profitability in each segment.

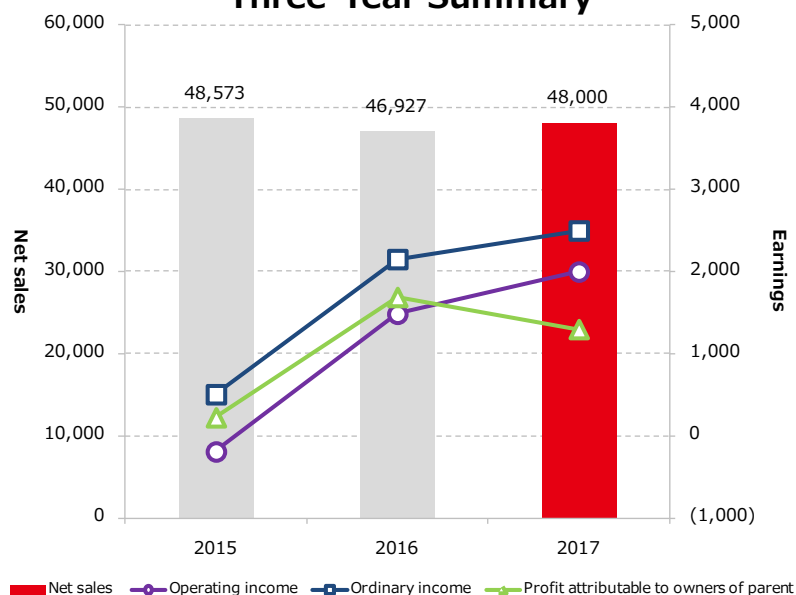
(Million yen)

	2017Forecast		2016Actual		YoY change
	A	Pct.of sales	B	Pct.of sales	A-B
Net sales	48,000	100.0%	46,927	100.0%	1,073
Operating income	2,000	4.2%	1,486	3.2%	514
Ordinary income	2,500	5.2%	2,152	4.6%	348
Profit attributable to owners of parent	1,300	2.7%	1,691	3.6%	(391)

2015Actual	
C	Pct.of sales
48,573	100.0%
(190)	(0.4%)
507	1.0%
226	0.5%



Three-Year Summary



【 Net sales 】

- Machinery : Up ¥900mn

【 Operating income 】

- New businesses : Up ¥200mn
- Pharmaceuticals : Up ¥200mn

【 Profit attributable to owners of parent 】

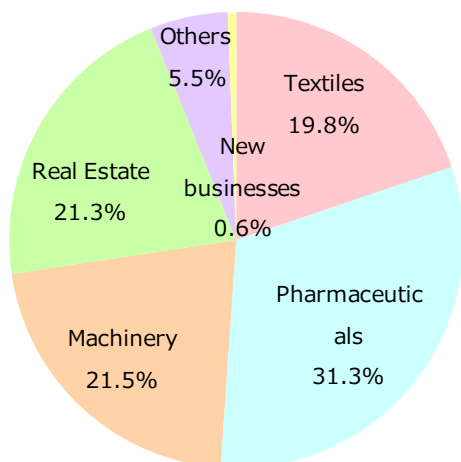
- Profit down due to proceeds from sales of investment securities in 2015

Consolidated Income Statement / Business Segment Sales Forecast

(Million yen)

	2017Forecast		2016Actual		YoY change	2015Actual	
	A	Pct.	B	Pct.	A-B	C	Pct.
Net sales	48,000	100.0%	46,927	100.0%	1,073	48,573	100.0%
Textiles	9,500	19.8%	9,635	20.5%	(135)	9,652	19.9%
Pharmaceuticals	15,000	31.3%	15,065	32.1%	(65)	14,903	30.7%
Machinery	10,300	21.5%	9,412	20.1%	888	12,607	25.9%
Real Estate	10,200	21.3%	10,188	21.7%	12	8,982	18.5%
Others	2,700	5.5%	2,502	5.3%	198	2,375	4.9%
New businesses	300	0.6%	124	0.3%	176	52	0.1%

Business Segment Sales

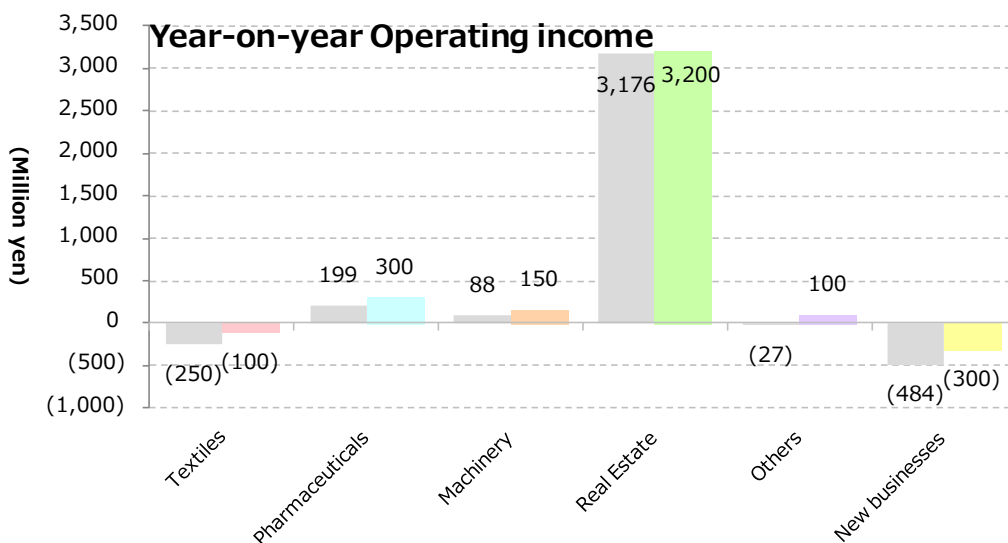


【 Machinery 】
 • Expect higher fire engine orders

Consolidated Income Statement / Business Segment Operating Income Forecast

(Million yen)

	2017Forecast	2016Actual	YoY change	2015Actual
	A	B	A-B	C
Operating income	2,000	1,486	514	(190)
Textiles	(100)	(250)	150	(197)
Pharmaceuticals	300	199	101	(524)
Machinery	150	88	62	150
Real Estate	3,200	3,176	24	2,219
Others	100	(27)	127	(97)
New businesses	(300)	(484)	184	(291)
adjustments	(1,350)	(1,216)	(134)	(1,450)



【 Textiles 】

- Sales decrease but earnings improve because of cost reductions

【 New businesses 】

- Earnings improve due to better profitability

(Million yen)

	2017Forecast	2016Actual	YoY change
	A	B	A-B
Capital expenditures	2,170	3,135	(965)
Real Estate	860	1,048	(188)
Other Segment	1,310	2,087	(777)

Depreciation	3,520	4,113	(593)
Pharmaceuticals	1,100	1,345	(245)
Real Estate	1,900	2,086	(186)
Other Segment	520	682	(162)

R&D Expenditures	2,600	2,567	33
Pharmaceuticals	2,210	2,285	(75)
Other Segment	390	282	108

3. Dividends and Dividend Policy

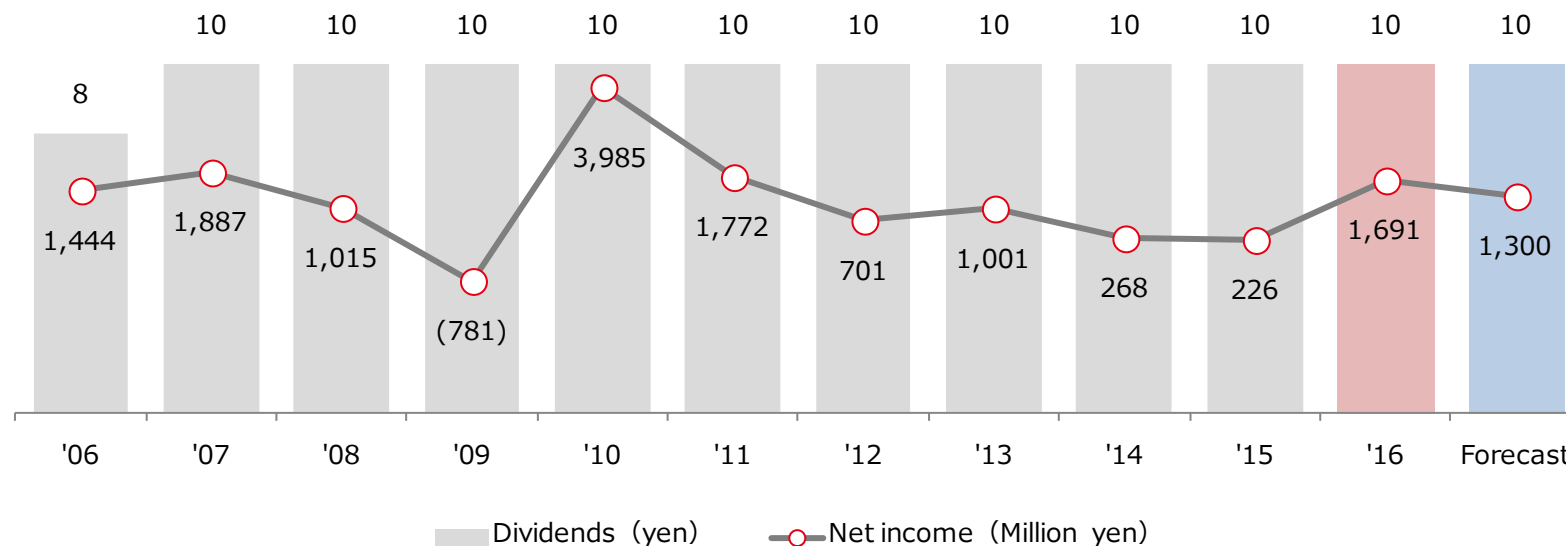
Dividend Policy

The basic policy for allocating earnings is to pay a consistent and stable dividend to shareholders while taking into account results of operations as well as the need to fund upcoming business operations and maintain sufficient retained earnings.

Dividend per Share	2016 Dividend
Ordinary dividend	¥10

Dividend per Share	2017 Dividend Forecast
Ordinary dividend	¥10

Dividends and Net Income



Supplementary Information

《Supplementary Information①》 The Source of Katakura's Diversification

Founded 1 8 7 3
 Established 1 9 2 0

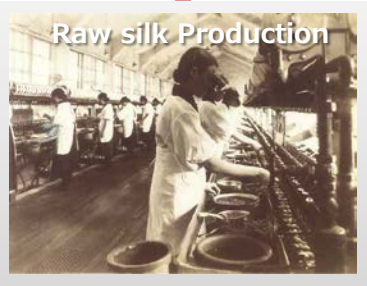
Silk thread production



Raw silk



Ownership of Tomioka Silk Mill 1939-2005 (66 years)



Carrying on the tradition of raw silk production



Innovating originating from research to create outstanding silk products



Utilizing know-how for the internal development of manufacturing equipment



Utilizing the former sites of thread factories

Textiles

Apparel

Manufacture and sale of underwear and socks

Ogran Japan Co., Ltd.

Manufacture and sale of casual innerwear

Kafulas Co., Ltd.

Manufacture and sale of foundation undergarments

Nitivity Co., Ltd.

Manufacture and sale of functional fibers

Pharmaceuticals

Toa Eiyo Ltd.

Manufacture and sale of prescription drugs

Others

Bioscience Research Center

Production and sale of insect pollinators and other products

Machinery

Mechatronics

Manufacture and sale of automotive parts and other products

Nihon Kikai Kogyo Co., Ltd.

Manufacture and sale of fire engines

Katakura Machinery Industries Co., Ltd.

Manufacture and sale of agricultural machinery

Real Estate

Commercial Facilities

Operation of shopping centers, real estate leasing

Real Estate Development Business

Development and use of company-owned land

Others

Retailing Business

Operation of home improvement centers

Katakura Caron Service Corp.

Building cleaning and maintenance services

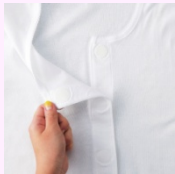
Textiles

Silk innerwear



Apparel

Nursing care underwear



Licensed products



Ogran Japan Co., Ltd.

Support undergarments



Kafulas Co., Ltd.

Alumina fiber yarn
(fire resistant)



Nitiv Co., Ltd.

Fire engines



Pharmaceuticals



Toa Eiyo Ltd.

Machinery

Three-way valve



Mechatronics

Vibration bubbling cleanser



Two-wheel power tiller



Katakura Machinery Industries Co., Ltd.

Fire truck with a ladder



Nihon Kikai Kogyo Co., Ltd.

Real Estate

Tokyo Square Garden



Commercial Facilities

COCOON City



Real Estate Development

Others

New Life Katakura



Retailing

Mulberry Garden



Cross-fertilization honeybee products



Bioscience Research Center

Building maintenance



Katakura Caron Service Corp.

<Disclaimer >

Sales and earnings forecasts and other forward-looking statements in this document are based on the economic forecast and other current assumptions. These statements are not guarantees or promises regarding future performance. Furthermore, forecasts may be revised at any time without prior notice.

Katakura has exercised care to be certain that all information in this document is correct. However, Katakura assumes no responsibility whatsoever for any errors in this information.

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World Heritage Site "Tomioka Silk Mill"



Special WEB page "history walked the Katakura and Tomioka Silk Mill"

<http://www.katakura.co.jp/tomioka.htm>