

IWATSU ELECTRIC CO., LTD.

2017 ANNUAL REPORT
For the year ended March 31, 2017

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June 2017

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended March 31, 2016 and 2017

	Millions of yen		Thousands of U.S. dollars	
	2016	2017	2016	2017
Net sales	¥ 23,624	¥ 22,354	\$ 210,574	\$ 199,256
Cost of sales	14,816	13,835	132,070	123,325
Gross profit	8,807	8,518	78,503	75,931
Selling, general and administrative expenses	9,444	8,357	84,182	74,490
Operating income (loss)	(637)	161	(5,678)	1,440
Non-operating income				
Interest income	24	20	220	182
Dividends income	36	45	323	408
Real estate rent	200	204	1,784	1,824
Other	138	113	1,234	1,009
Non-operating income total	399	384	3,561	3,425
Non-operating expenses				
Interest expenses	3	3	33	27
Rent expenses on real estates	113	101	1,007	903
Foreign exchange losses	58	93	521	837
Other	14	28	130	254
Non-operating expenses total	189	227	1,693	2,023
Ordinary income (loss)	(427)	318	(3,809)	2,842
Extraordinary income				
Gain on sales of non-current assets	-	2,914	-	25,982
Compensation for transfer	-	889	-	7,926
Extraordinary income total	-	3,804	-	33,908
Extraordinary loss				
Loss on retirement of non-current assets	-	78	-	702
Office transfer expenses	-	126	-	1,128
Special retirement expenses	47	1,309	426	11,670
Extraordinary loss total	47	1,514	426	13,499
Income (loss) before income taxes	(475)	2,608	(4,236)	23,251
Income taxes-current	60	55	537	497
Income taxes-deferred	(41)	1,044	(370)	9,308
Total income taxes	18	1,100	167	9,805
Profit (loss)	(494)	1,508	(4,403)	13,445
Profit attributable to non-controlling interests	6	3	60	29
Profit (loss) attributable to owners of parent	¥ (500)	¥ 1,505	\$ (4,464)	\$ 13,415

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended March 31, 2016 and 2017

	Millions of yen		Thousands of U.S. dollars	
	2016	2017	2016	2017
Profit (loss)	(494)	1,508	(4,403)	13,445
Other comprehensive income:				
Valuation difference on available-for sale securities	(177)	196	(1,585)	1,753
Foreign currency translation adjustment	(78)	(5)	(699)	(49)
Remeasurements of defined benefit plans	131	147	1,171	1,314
Total other comprehensive income	(124)	338	(1,112)	3,017
Comprehensive income	¥ (618)	¥ 1,847	\$ (5,516)	\$ 16,463
Comprehensive income attributable to:				
Owners of parent	(625)	1,843	(5,576)	16,433
Non-controlling interests	6	3	60	29

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED BALANCE SHEETS
March 31, 2016 and 2017

<u>ASSETS</u>	Millions of yen		Thousands of U.S. dollars	
	2016	2017	2016	2017
Assets				
Current assets				
Cash and deposits	¥ 9,064	¥ 5,965	\$ 80,794	\$ 53,175
Notes and accounts receivable-trade	6,359	6,215	56,689	55,397
Securities	-	898	-	8,011
Merchandise and finished goods	1,130	1,279	10,076	11,404
Work in progress	613	524	5,471	4,676
Raw materials and supplies	1,875	1,551	16,719	13,826
Deferred tax assets	18	10	166	92
Other	192	439	1,716	3,916
Allowance for doubtful accounts	(8)	(2)	(74)	(20)
Current assets total	19,247	16,882	171,560	150,480
Noncurrent assets				
Property, plant and equipment				
Buildings and structures, net	2,820	2,620	25,143	23,359
Machinery, equipment and vehicles, net	777	808	6,926	7,207
Tools, furniture and fixtures, net	537	531	4,793	4,737
Land	1,137	1,132	10,139	10,093
Lease assets, net	8	8	76	78
Construction in progress	2	-	23	-
Property, plant and equipment total	5,284	5,102	47,102	45,476
Intangible assets				
Goodwill	0	0	4	1
Software	1,174	1,014	10,472	9,047
Other	56	51	500	454
Intangible assets total	1,231	1,066	10,977	9,503
Investments and other assets				
Investment securities	2,381	3,560	21,223	31,737
Long-term loans receivable	9	4	85	43
Real estate for investment, net	2,085	2,059	18,587	18,361
Deferred tax assets	35	11	314	104
Other	379	290	3,382	2,590
Allowance for doubtful accounts	(44)	(35)	(395)	(316)
Investments and other assets total	4,846	5,892	43,197	52,520
Noncurrent assets total	11,362	12,060	101,276	107,500
Assets total	¥ 30,609	¥ 28,942	\$ 272,837	\$ 257,981

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED BALANCE SHEETS
March 31, 2016 and 2017

LIABILITIES AND STOCKHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars	
	2016	2017	2016	2017
Liabilities				
Current liabilities				
Notes and accounts payable-trade	¥ 1,820	¥ 1,323	\$ 16,229	\$ 11,794
Short-term loans payable	83	75	747	675
Lease obligations	10	6	89	58
Accounts payable-other	521	795	4,644	7,092
Accrued expenses	363	371	3,239	3,314
Suspense receipt	3,627	-	32,332	-
Income taxes payable	65	88	584	789
Provision for bonuses	597	520	5,322	4,635
Provision for product warranties	177	234	1,586	2,091
Other	362	442	3,229	3,941
Current liabilities total	7,629	3,858	68,005	34,393
Noncurrent liabilities				
Long-term loans payable	5	-	51	-
Lease obligations	12	9	110	88
Deferred tax liabilities	854	1,933	7,620	17,235
Net defined benefit liability	4,037	3,462	35,984	30,859
Other	548	486	4,885	4,340
Noncurrent liabilities total	5,458	5,892	48,651	52,523
Liabilities total	13,087	9,751	116,657	86,916
Net assets				
Shareholders' equity				
Capital stock	6,025	6,025	53,707	53,707
Capital surplus	6,942	6,948	61,878	61,934
Retained earnings	4,647	6,152	41,428	54,843
Treasury stock	(184)	(182)	(1,642)	(1,629)
Shareholders' equity total	17,431	18,944	155,371	168,856
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities	155	352	1,385	3,138
Foreign currency translation adjustment	(109)	(115)	(975)	(1,025)
Remeasurements of defined benefit plans	(136)	10	(1,219)	95
Accumulated other comprehensive income total	(90)	247	(809)	2,208
Non-controlling interests	181	-	1,618	-
Net assets total	17,521	19,191	156,179	171,064
Liabilities and net assets total	¥ 30,609	¥ 28,942	\$ 272,837	\$ 257,981

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
Years ended March 31, 2016 and 2017

Millions of yen

	Shareholders' equity				Accumulated other comprehensive income				Non-controlling interests	Total net assets	
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans			Total Accumulated other comprehensive income
Balance at March 31, 2015	¥ 6,025	¥ 6,942	¥ 5,148	¥ (191)	¥ 17,924	¥ 333	¥ (31)	¥ (268)	¥ 34	¥ 196	¥ 18,154
Changes of items during period											
Profit (loss) attributable to owners of parent			(500)		(500)						(500)
Purchases of treasury stock				(0)	(0)						(0)
Disposal of treasury stock				7	7						7
Net changes of items other than shareholders' equity						(177)	(78)	131	(124)	(14)	(139)
Total changes of items during period	-	-	(500)	7	(493)	(177)	(78)	131	(124)	(14)	(633)
Balance at March 31, 2016	¥ 6,025	¥ 6,942	¥ 4,647	¥ (184)	¥ 17,431	¥ 155	¥ (109)	¥ (136)	¥ (90)	¥ 181	¥ 17,521
Changes of items during period											
Profit (loss) attributable to owners of parent			1,505		1,505						1,505
Change in ownership interest of parent due to transactions with non-controlling interests		6			6						6
Purchases of treasury stock				(0)	(0)						(0)
Disposal of treasury stock				1	1						1
Net changes of items other than shareholders' equity						196	(5)	147	338	(181)	156
Total changes of items during period	-	6	1,505	1	1,512	196	(5)	147	338	(181)	1,669
Balance at March 31, 2017	¥ 6,025	¥ 6,948	¥ 6,152	¥ (182)	¥ 18,944	¥ 352	¥ (115)	¥ 10	¥ 247	¥ -	¥ 19,191

Thousands of U.S. dollars

	Shareholders' equity				Accumulated other comprehensive income				Non-controlling interests	Total net assets	
	Capital stock	Capital Surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans			Total Accumulated other comprehensive income
Balance at March 31, 2015	\$ 53,707	\$ 61,878	\$ 45,892	\$ (1,706)	\$ 159,771	\$ 2,971	\$ (277)	\$ (2,391)	\$ 303	\$ 1,747	\$ 161,821
Changes of items during period											
Profit (loss) attributable to owners of parent			(4,464)		(4,464)						(4,464)
Purchases of treasury stock				(4)	(4)						(4)
Disposal of treasury stock				67	67						67
Net changes of items other than shareholders' equity						(1,585)	(699)	1,171	(1,113)	(128)	(1,241)
Total changes of items during period	-	-	(4,464)	63	(4,401)	(1,585)	(699)	1,171	(1,113)	(128)	(5,642)
Balance at March 31, 2016	\$ 53,707	\$ 61,878	\$ 41,428	\$ (1,642)	\$ 155,371	\$ 1,385	\$ (975)	\$ (1,219)	\$ (809)	\$ 1,618	\$ 156,179
Changes of items during period											
Profit (loss) attributable to owners of parent			13,415		13,415						13,415
Change in ownership interest of parent due to transactions with non-controlling interests		56			56						56
Purchases of treasury stock				(4)	(4)						(4)
Disposal of treasury stock				17	17						17
Net changes of items other than shareholders' equity						1,753	(49)	1,314	3,018	(1,618)	1,400
Total changes of items during period	-	56	13,415	13	13,484	1,753	(49)	1,314	3,018	(1,618)	14,884
Balance at March 31, 2017	\$ 53,707	\$ 61,934	\$ 54,843	\$ (1,629)	\$ 168,856	\$ 3,138	\$ (1,025)	\$ 95	\$ 2,208	\$ -	\$ 171,064

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2016 and 2017

	Millions of yen		Thoudands of U.S. dollars	
	2016	2017	2016	2017
Cash flows from operating activities:				
Profit (loss) before income taxes	¥ (475)	¥ 2,608	\$ (4,236)	\$ 23,251
Depreciation and amortization	1,020	1,065	9,100	9,496
Increase (decrease) in allowance for doubtful accounts	(10)	(14)	(91)	(132)
Increase (decrease) in net defined benefit liability	(34)	(427)	(307)	(3,809)
Interest and dividends income	(60)	(66)	(543)	(591)
Interest expenses	3	3	33	27
Loss (gain) on sales of non-current assets	(0)	(2,918)	(0)	(26,014)
Compensation for removal	-	(889)	-	(7,926)
Extra retirement payment	47	1,309	426	11,669
Decrease (increase) in notes and accounts receivable-trade	166	143	1,481	1,282
Decrease (increase) in inventories	(40)	264	(363)	2,359
Increase (decrease) in notes and accounts payable-trade	(262)	(497)	(2,335)	(4,434)
Other, net	(357)	651	(3,189)	5,810
Subtotal	(2)	1,232	(25)	10,989
Interest and dividends income received	91	93	817	836
Interest expenses paid	(3)	(3)	(33)	(27)
Income taxes paid	(89)	(60)	(800)	(539)
Proceeds from compensation for removal	707	-	6,309	-
Extra retirement payments	(47)	(1,309)	(426)	(11,669)
Other, net	-	(126)	-	(1,127)
Net cash provided by (used in) operating activities	655	(172)	5,840	(1,538)
Cash flows from investing activities:				
Purchase of securities	(800)	(1,200)	(7,130)	(10,696)
Proceeds from redemption of securities	1,400	600	12,478	5,348
Purchase of property, plant and equipment	(401)	(464)	(3,583)	(4,144)
Purchase of intangible assets	(779)	(431)	(6,951)	(3,842)
Purchase of investment securities	(1,001)	(1,312)	(8,927)	(11,699)
Proceeds from withdrawal of time deposits	1,220	1,320	10,874	11,765
Other, net	2,802	62	24,984	555
Net cash provided by (used in) investing activities	2,439	(1,426)	21,743	(12,713)
Cash flows from financing activities:				
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	-	(175)	-	(1,561)
Other, net	(43)	(27)	(387)	(242)
Net cash provided by (used in) financing activities	(43)	(202)	(387)	(1,804)
Effect of exchange rate change on cash and cash equivalents	(42)	(3)	(381)	(27)
Net increase (decrease) in cash and cash equivalents	3,008	(1,804)	26,814	(16,085)
Cash and cash equivalents at beginning of period	4,599	7,608	41,001	67,816
Cash and cash equivalents at end of period	7,608	5,803	67,816	51,731

IWATSU ELECTRIC CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2016 AND 2017

Segment information

The Company's primary businesses are the manufacturing and sales of (1) Business communication systems, (2) Printing systems and (3) Test and measurement equipment.

	Millions of yen				
	Business communication systems	Printing systems	Test and measurement equipment	Reconciliations	Consolidated
For the year ended March 31, 2016:					
Net sales:					
Outside customers	¥ 17,281	¥ 3,417	¥ 2,924	¥ -	¥ 23,624
Inter-segment total	-	-	-	-	-
	<u>17,281</u>	<u>3,417</u>	<u>2,924</u>	<u>-</u>	<u>23,624</u>
Operating income (loss)	<u>¥ 597</u>	<u>¥ 44</u>	<u>¥ 5</u>	<u>¥ (1,285)</u>	<u>¥ (637)</u>
Assets	<u>¥ 13,980</u>	<u>¥ 2,863</u>	<u>¥ 1,967</u>	<u>¥ 11,798</u>	<u>¥ 30,609</u>
Other:					
Depreciation and amortization	¥ 767	¥ 94	¥ 42	¥ 89	¥ 994
Amortization of goodwill	0	3	-	-	3
Increase of property, plant and equipment and intangible assets	813	44	66	94	1,019

	Millions of yen				
	Business communication systems	Printing systems	Test and measurement equipment	Reconciliations	Consolidated
For the year ended March 31, 2017:					
Net sales:					
Outside customers	¥ 16,612	¥ 2,906	¥ 2,835	¥ -	¥ 22,354
Inter-segment total	-	-	-	-	-
	<u>16,612</u>	<u>2,906</u>	<u>2,835</u>	<u>-</u>	<u>22,354</u>
Operating income (loss)	<u>¥ 1,428</u>	<u>¥ 130</u>	<u>¥ 132</u>	<u>¥ (1,530)</u>	<u>¥ 161</u>
Assets	<u>¥ 13,333</u>	<u>¥ 1,887</u>	<u>¥ 2,179</u>	<u>¥ 11,542</u>	<u>¥ 28,942</u>
Other:					
Depreciation and amortization	¥ 823	¥ 75	¥ 57	¥ 82	¥ 1,038
Amortization of goodwill	0	-	-	-	0
Increase of property, plant and equipment and intangible assets	499	62	49	127	739

*1 Reconciliations were inclusive of followings.

(1) Reconciliations of operating income (loss) include company-wide expenses not distributed to individual reporting segment.

(2) Reconciliations of assets include company-wide assets not distributed to each reporting segment.

(3) Reconciliations of increase of property, plant and equipment and intangible assets include capital investments by indirect departments.

*2 Reconciliations were made on operating income (loss) to be consistent with that of consolidated statements of operations.

IWATSU ELECTRIC CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2016 AND 2017

Thousands of U.S. dollars					
	Business communication systems	Printing systems	Test and measurement equipment	Reconciliations	Consolidated
For the year ended March 31, 2016:					
Net sales:					
Outside customers	\$ 154,041	\$ 30,461	\$ 26,071	\$ -	\$ 210,574
Inter-segment	-	-	-	-	-
total	<u>154,041</u>	<u>30,461</u>	<u>26,071</u>	<u>-</u>	<u>210,574</u>
Operating income (loss)	<u>\$ 5,328</u>	<u>\$ 399</u>	<u>\$ 51</u>	<u>\$ (11,458)</u>	<u>\$ (5,678)</u>
Assets	<u>\$ 124,613</u>	<u>\$ 25,525</u>	<u>\$ 17,533</u>	<u>\$ 105,164</u>	<u>\$ 272,837</u>
Other:					
Depreciation and amortization	\$ 6,843	\$ 839	\$ 376	\$ 801	\$ 8,860
Amortization of goodwill	2	26	-	-	29
Increase of property, plant and equipment and intangible assets	7,249	398	591	843	9,083

Thousands of U.S. dollars					
	Business communication systems	Printing systems	Test and measurement equipment	Reconciliations	Consolidated
For the year ended March 31, 2017:					
Net sales:					
Outside customers	\$ 148,079	\$ 25,905	\$ 25,271	\$ -	\$ 199,256
Inter-segment	-	-	-	-	-
total	<u>148,079</u>	<u>25,905</u>	<u>25,271</u>	<u>-</u>	<u>199,256</u>
Operating income (loss)	<u>\$ 12,733</u>	<u>\$ 1,167</u>	<u>\$ 1,182</u>	<u>\$ (13,643)</u>	<u>\$ 1,440</u>
Assets	<u>\$ 118,846</u>	<u>\$ 16,826</u>	<u>\$ 19,422</u>	<u>\$ 102,885</u>	<u>\$ 257,981</u>
Other:					
Depreciation and amortization	\$ 7,341	\$ 676	\$ 508	\$ 731	\$ 9,257
Amortization of goodwill	2	-	-	-	2
Increase of property, plant and equipment and intangible assets	4,454	561	441	1,134	6,592

*1 Reconciliations were inclusive of followings.

- (1) Reconciliations of operating income (loss) include company-wide expenses not distributed to individual reporting segment.
- (2) Reconciliations of assets include company-wide assets not distributed to each reporting segment.
- (3) Reconciliations of increase of property, plant and equipment and intangible assets include capital investments by indirect departments.

*2 Reconciliations were made on operating income (loss) to be consistent with that of consolidated statements of operations.