

IWATSU ELECTRIC CO., LTD.

2016 ANNUAL REPORT
For the year ended March 31, 2016

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June 2016

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars	
	2015	2016	2015	2016
Net sales	¥ 24,778	¥ 23,624	\$ 219,902	\$ 209,658
Cost of sales	15,187	14,816	134,781	131,495
Gross profit (loss)	9,591	8,807	85,121	78,162
Selling, general and administrative expenses	9,853	9,444	87,444	83,816
Operating income (loss)	(261)	(637)	(2,323)	(5,653)
Non-operating income				
Interest income	23	24	210	219
Dividends income	32	36	289	321
Real estate rent	211	200	1,878	1,776
Other	166	138	1,477	1,229
Non-operating income total	434	399	3,856	3,546
Non-operating expenses				
Interest expenses	4	3	42	33
Rent expenses on real estates	121	113	1,078	1,002
Foreign exchange losses	41	58	366	519
Other	14	14	126	130
Non-operating expenses total	181	189	1,614	1,685
Ordinary income (loss)	(9)	(427)	(81)	(3,793)
Extraordinary income				
Gain on sales of investment securities	106	-	941	-
Extraordinary income total	106	-	941	-
Extraordinary loss				
Special retirement expenses	-	47	-	425
Extraordinary loss total	-	47	-	425
Income (loss) before income taxes	96	(475)	859	(4,217)
Income taxes-current	110	60	978	535
Income taxes-deferred	(106)	(41)	(948)	(368)
Total income taxes	3	18	30	166
Profit (loss)	93	(494)	829	(4,384)
Profit (loss) attributable to non-controlling interests	42	6	376	60
Profit (loss) attributable to owners of parent	¥ 51	¥ (500)	\$ 452	\$ (4,444)

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars	
	2015	2016	2015	2016
Profit (loss)	93	(494)	829	(4,384)
Other comprehensive income:				
Valuation difference on available-for sale securities	71	(177)	634	(1,578)
Foreign currency translation adjustment	166	(78)	1,477	(695)
Remeasurements of defined benefit plans	39	131	347	1,166
Total other comprehensive income	277	(124)	2,459	(1,107)
Comprehensive income	¥ 370	¥ (618)	\$ 3,289	\$ (5,492)
Comprehensive income attributable to:				
Owners of parent	328	(625)	2,912	(5,552)
Non-controlling interests	42	6	376	60

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED BALANCE SHEETS
March 31, 2015 and 2016

ASSETS	Millions of yen		Thousands of U.S. dollars	
	2015	2016	2015	2016
Assets				
Current assets				
Cash and deposits	¥ 5,849	¥ 9,064	\$ 51,916	\$ 80,443
Notes and accounts receivable-trade	6,534	6,359	57,991	56,442
Securities	600	-	5,324	-
Merchandise and finished goods	965	1,130	8,571	10,032
Work in progress	670	613	5,946	5,447
Raw materials and supplies	1,956	1,875	17,366	16,646
Deferred tax assets	27	18	240	165
Other	184	192	1,635	1,709
Allowance for doubtful accounts	(14)	(8)	(126)	(74)
Current assets total	<u>16,774</u>	<u>19,247</u>	<u>148,867</u>	<u>170,814</u>
Noncurrent assets				
Property, plant and equipment				
Buildings and structures, net	2,880	2,820	25,565	25,034
Machinery, equipment and vehicles, net	832	777	7,386	6,896
Tools, furniture and fixtures, net	572	537	5,079	4,772
Land	1,145	1,137	10,162	10,095
Lease assets, net	10	8	97	76
Construction in progress	-	2	-	23
Property, plant and equipment total	<u>5,441</u>	<u>5,284</u>	<u>48,291</u>	<u>46,897</u>
Intangible assets				
Goodwill	3	0	33	4
Software	959	1,174	8,518	10,427
Other	62	56	554	497
Intangible assets total	<u>1,026</u>	<u>1,231</u>	<u>9,106</u>	<u>10,929</u>
Investments and other assets				
Investment securities	1,639	2,381	14,553	21,131
Long-term loans receivable	9	9	88	84
Long-term time deposits	1,300	-	11,537	-
Real estate for investment, net	2,112	2,085	18,745	18,506
Deferred tax assets	48	35	429	313
Other	481	379	4,276	3,367
Allowance for doubtful accounts	(49)	(44)	(435)	(394)
Investments and other assets total	<u>5,543</u>	<u>4,846</u>	<u>49,195</u>	<u>43,009</u>
Noncurrent assets total	<u>12,010</u>	<u>11,362</u>	<u>106,593</u>	<u>100,836</u>
Assets total	<u>¥ 28,785</u>	<u>¥ 30,609</u>	<u>\$ 255,460</u>	<u>\$ 271,650</u>

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED BALANCE SHEETS
March 31, 2015 and 2016

LIABILITIES AND STOCKHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars	
	2015	2016	2015	2016
Liabilities				
Current liabilities				
Notes and accounts payable-trade	¥ 2,089	¥ 1,820	\$ 18,546	\$ 16,159
Short-term loans payable	87	83	773	744
Lease obligations	11	10	104	89
Accounts payable-other	812	521	7,209	4,623
Accrued expenses	407	363	3,615	3,225
Suspense receipt	-	3,627	-	32,192
Income taxes payable	90	65	801	582
Provision for bonuses	632	597	5,613	5,298
Provision for product warranties	304	177	2,703	1,579
Other	375	362	3,329	3,215
Current liabilities total	4,811	7,629	42,696	67,710
Noncurrent liabilities				
Long-term loans payable	19	5	174	50
Lease obligations	17	12	157	109
Deferred tax liabilities	988	854	8,769	7,587
Net defined benefit liability	4,204	4,037	37,310	35,827
Other	589	548	5,234	4,864
Noncurrent liabilities total	5,819	5,458	51,646	48,440
Liabilities total	10,630	13,087	94,342	116,150
Net assets				
Shareholders' equity				
Capital stock	6,025	6,025	53,474	53,474
Capital surplus	6,942	6,942	61,608	61,608
Retained earnings	5,148	4,647	45,692	41,247
Treasury stock	(191)	(184)	(1,698)	(1,635)
Shareholders' equity total	17,924	17,431	159,077	154,695
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities	333	155	2,957	1,379
Foreign currency translation adjustment	(31)	(109)	(275)	(971)
Remeasurements of defined benefit plans	(268)	(136)	(2,380)	(1,213)
Accumulated other comprehensive income total	34	(90)	301	(806)
Non-controlling interests	196	181	1,739	1,611
Net assets total	18,154	17,521	161,118	155,500
Liabilities and net assets total	¥ 28,785	¥ 30,609	\$ 255,460	\$ 271,650

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
Years ended March 31, 2015 and 2016

Millions of yen

	Shareholders' equity				Accumulated other comprehensive income						
	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	Non-controlling interests	Total net assets
Balance at March 31, 2014	¥ 6,025	¥ 6,942	¥ 5,264	¥ (190)	¥ 18,041	¥ 261	¥ (197)	¥ (307)	¥ (243)	¥ 165	¥ 17,963
Cumulative effects of changes in accounting policies			(68)		(68)						(68)
Restated balance	6,025	6,942	5,196	(190)	17,973	261	(197)	(307)	(243)	165	17,895
Changes of items during period											
Net income (loss)			51		51						51
Dividends from surplus			(98)		(98)						(98)
Purchases of treasury stock				(1)	(1)						(1)
Disposal of treasury stock				0	0						0
Net changes to items other than shareholders' equity						71	166	39	277	30	307
Total changes of items during period	-	-	(47)	(0)	(48)	71	166	39	277	30	259
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											
Net income (loss)			(500)		(500)						(500)
Purchases of treasury stock				(0)	(0)						(0)
Disposal of treasury stock				7	7						7
Net changes to 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

Thousands of U.S. dollars

	Shareholders' equity				Accumulated other comprehensive income						
	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	Non-controlling interests	Total net assets
Balance at March 31, 2014	\$ 53,474	\$ 61,608	\$ 46,720	\$ (1,692)	\$ 160,110	\$ 2,323	\$ (1,752)	\$ (2,728)	\$ (2,158)	\$ 1,468	\$ 159,421
Cumulative effects of changes in accounting policies			(604)		(604)						(604)
Restated balance	53,474	61,608	46,116	(1,692)	159,506	2,323	(1,752)	(2,728)	(2,158)	1,468	158,817
Changes of items during period											
Net income (loss)			452		452						452
Dividends from surplus			(875)		(875)						(875)
Purchases of treasury stock				(11)	(11)						(11)
Disposal of treasury stock				5	5						5
Net changes to items other than shareholders' equity						634	1,477	347	2,458	271	2,729
Total changes of items during period	-	-	(423)	(6)	(429)	634	1,477	347	2,458	271	2,300
Balance at March 31, 2015	\$ 53,474	\$ 61,608	\$ 45,692	\$ (1,698)	\$ 159,077	\$ 2,957	\$ (275)	\$ (2,380)	\$ 301	\$ 1,739	\$ 161,118
Changes of items during period											
Net income (loss)			(4,444)		(4,444)						(4,444)
Purchases of treasury stock				(4)	(4)						(4)
Disposal of treasury stock				66	66						66
Net changes to items other than shareholders' equity						(1,578)	(695)	1,166	(1,107)	(128)	(1,235)
Total changes of items during period	-	-	(4,444)	62	(4,382)	(1,578)	(695)	1,166	(1,107)	(128)	(5,617)
Balance at March 31, 2016	\$ 53,474	\$ 61,608	\$ 41,247	\$ (1,635)	\$ 154,695	\$ 1,379	\$ (971)	\$ (1,213)	\$ (806)	\$ 1,611	\$ 155,500

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars	
	2015	2016	2015	2016
Cash flows from operating activities:				
Profit (loss) before income taxes	¥ 96	¥ (475)	\$ 859	\$ (4,217)
Depreciation and amortization	1,019	1,020	9,043	9,060
Increase (decrease) in allowance for doubtful accounts	(8)	(10)	(71)	(91)
Interest and dividends income	(56)	(60)	(500)	(540)
Interest expenses	4	3	42	33
Decrease (increase) in notes and accounts receivable-trade	(235)	166	(2,094)	1,474
Decrease (increase) in inventories	(93)	(40)	(830)	(362)
Increase (decrease) in notes and accounts payable-trade	71	(262)	634	(2,325)
Other, net	146	(344)	1,302	(3,056)
Subtotal	<u>945</u>	<u>(2)</u>	<u>8,387</u>	<u>(25)</u>
Interest and dividends income received	105	91	938	813
Interest expenses paid	(4)	(3)	(42)	(33)
Income taxes paid	(135)	(89)	(1,206)	(797)
Proceeds from compensation for removal	-	707	-	6,282
Other, net	-	(47)	-	(424)
Net cash provided by (used in) operating activities	<u>910</u>	<u>655</u>	<u>8,076</u>	<u>5,814</u>
Cash flows from investing activities:				
Purchase of securities	(600)	(800)	(5,324)	(7,099)
Proceeds from redemption of securities	200	1,400	1,774	12,424
Purchase of property, plant and equipment	(494)	(401)	(4,387)	(3,567)
Proceeds from sales of property, plant and equipment	0	2,925	5	25,966
Purchase of intangible assets	(445)	(779)	(3,952)	(6,921)
Purchase of investment securities	(211)	(1,001)	(1,875)	(8,889)
Payments into time deposits	(1,426)	(126)	(12,655)	(1,118)
Proceeds from withdrawal of time deposits	1,020	1,220	9,052	10,827
Other, net	325	3	2,892	27
Net cash provided by (used in) investing activities	<u>(1,630)</u>	<u>2,439</u>	<u>(14,471)</u>	<u>21,649</u>
Cash flows from financing activities:				
Other, net	(146)	(43)	(1,296)	(386)
Net cash provided by (used in) financing activities	<u>(146)</u>	<u>(43)</u>	<u>(1,296)</u>	<u>(386)</u>
Effect of exchange rate change on cash and cash equivalents	78	(42)	698	(379)
Net increase (decrease) in cash and cash equivalents	<u>(787)</u>	<u>3,008</u>	<u>(6,992)</u>	<u>26,698</u>
Cash and cash equivalents at beginning of period	<u>5,387</u>	<u>4,599</u>	<u>47,815</u>	<u>40,823</u>
Cash and cash equivalents at end of period	<u>4,599</u>	<u>7,608</u>	<u>40,823</u>	<u>67,521</u>

IWATSU ELECTRIC CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2015 AND 2016

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, 2015:					
Net sales:					
Outside customers	¥ 18,016	¥ 3,613	¥ 3,148	¥ -	¥ 24,778
Inter-segment total	-	-	-	-	-
	<u>18,016</u>	<u>3,613</u>	<u>3,148</u>	<u>-</u>	<u>24,778</u>
Operating income (loss)	<u>¥ 890</u>	<u>¥ 190</u>	<u>¥ 32</u>	<u>¥ (1,375)</u>	<u>¥ (261)</u>
Assets	<u>¥ 14,191</u>	<u>¥ 2,982</u>	<u>¥ 2,114</u>	<u>¥ 9,496</u>	<u>¥ 28,785</u>
Other:					
Depreciation and amortization	¥ 728	¥ 101	¥ 50	¥ 104	¥ 985
Amortization of goodwill	16	6	-	-	22
Increase of property, plant and equipment and intangible assets	809	36	58	58	962

	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

*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, 2015 AND 2016

	Thousands of U.S. dollars				
	Business communication systems	Printing systems	Test and measurement equipment	Reconciliations	Consolidated
For the year ended March 31, 2015:					
Net sales:					
Outside customers	\$ 159,888	\$ 32,069	\$ 27,944	\$ -	\$ 219,902
Inter-segment	-	-	-	-	-
total	<u>159,888</u>	<u>32,069</u>	<u>27,944</u>	<u>-</u>	<u>219,902</u>
Operating income (loss)	<u>\$ 7,904</u>	<u>\$ 1,690</u>	<u>\$ 286</u>	<u>\$ (12,205)</u>	<u>\$ (2,323)</u>
Assets	<u>\$ 125,945</u>	<u>\$ 26,471</u>	<u>\$ 18,769</u>	<u>\$ 84,274</u>	<u>\$ 255,460</u>
Other:					
Depreciation and amortization	\$ 6,466	\$ 903	\$ 446	\$ 927	\$ 8,744
Amortization of goodwill	147	53	-	-	200
Increase of property, plant and equipment and intangible assets	7,183	321	516	520	8,542

	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	\$ 153,371	\$ 30,328	\$ 25,957	\$ -	\$ 209,658
Inter-segment	-	-	-	-	-
total	<u>153,371</u>	<u>30,328</u>	<u>25,957</u>	<u>-</u>	<u>209,658</u>
Operating income (loss)	<u>\$ 5,305</u>	<u>\$ 397</u>	<u>\$ 51</u>	<u>\$ (11,408)</u>	<u>\$ (5,653)</u>
Assets	<u>\$ 124,071</u>	<u>\$ 25,414</u>	<u>\$ 17,457</u>	<u>\$ 104,707</u>	<u>\$ 271,650</u>
Other:					
Depreciation and amortization	\$ 6,813	\$ 835	\$ 374	\$ 798	\$ 8,822
Amortization of goodwill	2	26	-	-	29
Increase of property, plant and equipment and intangible assets	7,218	396	589	839	9,044

*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.