

IWATSU ELECTRIC CO., LTD.

2018 ANNUAL REPORT
For the year ended March 31, 2018

CONTENTS

Consolidated Statements of Operations
Consolidated Statements of Comprehensive Income
Consolidated Balance Sheets
Consolidated Statements of Changes in Equity
Consolidated Statements of Cash Flows
Segment information

June 2018

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended March 31, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars	
	2017	2018	2017	2018
Net sales	¥ 22,354	¥ 21,586	\$ 210,416	\$ 203,181
Cost of sales	13,835	13,335	130,232	125,524
Gross profit	8,518	8,250	80,183	77,657
Selling, general and administrative expenses	8,357	8,137	78,662	76,597
Operating profit	161	112	1,521	1,059
Non-operating income				
Interest income	20	18	193	175
Dividend income	45	54	431	508
Real estate rent	204	178	1,926	1,682
Other	113	111	1,066	1,045
Total non-operating income	384	362	3,617	3,412
Non-operating expenses				
Interest expenses	3	3	29	29
Rent expenses on real estates	101	116	954	1,099
Foreign exchange losses	93	44	884	418
Other	28	28	268	269
Total non-operating expenses	227	193	2,137	1,816
Ordinary profit	318	282	3,001	2,655
Extraordinary income				
Gain on sales of non-current assets	2,914	-	27,437	-
Compensation for transfer	889	-	8,370	-
Gain on forgiveness of debts	-	27	-	260
Total extraordinary income	3,804	27	35,807	260
Extraordinary loss				
Loss on retirement of non-current assets	78	-	740	-
Office transfer expenses	126	-	1,191	-
Special retirement expenses	1,309	-	12,323	-
Total Extraordinary losses	1,514	-	14,255	-
Profit before income taxes	2,608	309	24,553	2,915
Income taxes-current	55	58	525	550
Income taxes-deferred	1,044	(17)	9,829	(168)
Total income taxes	1,100	40	10,355	382
Profit	1,508	269	14,198	2,533
Profit attributable to non-controlling interests	3	-	31	-
Profit attributable to owners of parent	¥ 1,505	¥ 269	\$ 14,167	\$ 2,533

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended March 31, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars	
	2017	2018	2017	2018
Profit	1,508	269	14,198	2,533
Other comprehensive income:				
Valuation difference on available-for-sale securities	196	87	1,851	820
Foreign currency translation adjustment	(5)	(61)	(52)	(582)
Remeasurements of defined benefit plans	147	57	1,387	539
Total other comprehensive income	338	82	3,186	777
Comprehensive income	¥ 1,847	¥ 351	\$ 17,385	\$ 3,310
Comprehensive income attributable to:				
Owners of parent	1,843	351	17,354	3,310
Non-controlling interests	3	-	31	-

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED BALANCE SHEETS
March 31, 2017 and 2018

<u>ASSETS</u>	Millions of yen		Thousands of U.S. dollars	
	2017	2018	2017	2018
Current assets				
Cash and deposits	¥ 5,965	¥ 6,156	\$ 56,154	\$ 57,952
Notes and accounts receivable-trade	6,215	6,605	58,500	62,173
Securities	898	200	8,459	1,883
Merchandise and finished goods	1,279	1,872	12,043	17,628
Work in process	524	628	4,938	5,915
Raw materials and supplies	1,551	1,771	14,600	16,671
Deferred tax assets	10	10	97	97
Other	439	197	4,135	1,854
Allowance for doubtful accounts	(2)	(7)	(21)	(71)
Total current assets	16,882	17,434	158,908	164,104
Noncurrent assets				
Property, plant and equipment				
Buildings and structures, net	2,620	2,481	24,668	23,353
Machinery, equipment and vehicles, net	808	774	7,611	7,292
Tools, furniture and fixtures, net	531	501	5,002	4,720
Land	1,132	1,126	10,658	10,602
Lease assets, net	8	5	82	52
Total property, plant and equipment	5,102	4,889	48,023	46,020
Intangible assets				
Goodwill	0	-	1	-
Software	1,014	710	9,553	6,688
Other	51	45	480	431
Total intangible assets	1,066	756	10,035	7,119
Investments and other assets				
Investment securities	3,560	3,851	33,514	36,256
Long-term loans receivable	4	4	45	39
Real estate for investment, net	2,059	2,055	19,389	19,346
Deferred tax assets	11	11	110	111
Other	290	326	2,735	3,075
Allowance for doubtful accounts	(35)	(34)	(334)	(328)
Total investments and other assets	5,892	6,215	55,461	58,501
Total noncurrent assets	12,060	11,860	113,520	111,642
Total assets	¥ 28,942	¥ 29,295	\$ 272,429	\$ 275,747

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED BALANCE SHEETS
March 31, 2017 and 2018

LIABILITIES AND STOCKHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars	
	2017	2018	2017	2018
Liabilities				
Current liabilities				
Notes and accounts payable-trade	¥ 1,323	¥ 1,594	\$ 12,455	\$ 15,011
Short-term loans payable	75	80	712	753
Lease obligations	6	4	62	46
Accounts payable-other	795	580	7,489	5,468
Accrued expenses	371	382	3,500	3,602
Income taxes payable	88	88	833	828
Provision for bonuses	520	526	4,895	4,956
Provision for product warranties	234	136	2,208	1,287
Other	442	408	4,162	3,848
Total current liabilities	3,858	3,803	36,319	35,802
Noncurrent liabilities				
Lease obligations	9	4	93	46
Deferred tax liabilities	1,933	1,970	18,200	18,548
Net defined benefit liability	3,462	3,607	32,588	33,958
Other	486	498	4,583	4,693
Total noncurrent liabilities	5,892	6,081	55,464	57,246
Total liabilities	9,751	9,885	91,784	93,049
Net assets				
Shareholders' equity				
Capital stock	6,025	6,025	56,715	56,715
Capital surplus	6,948	6,948	65,402	65,402
Retained earnings	6,152	6,273	57,915	59,054
Treasury shares	(182)	(168)	(1,720)	(1,583)
Total shareholders' equity	18,944	19,079	178,313	179,588
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities-BS	352	439	3,314	4,134
Foreign currency translation adjustment	(115)	(176)	(1,082)	(1,665)
Remeasurements of defined benefit plans	10	67	100	639
Total accumulated other comprehensive income	247	330	2,331	3,109
Total net assets	19,191	19,409	180,645	182,697
Total liabilities and net assets	¥ 28,942	¥ 29,295	\$ 272,429	\$ 275,747

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
Years ended March 31, 2017 and 2018

Millions of yen

	Shareholders' equity				Accumulated other comprehensive income				Non-controlling interests	Total net assets	
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans			Total accumulated other comprehensive income
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 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 shares				(0)	(0)						(0)
Disposal of treasury shares				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
Changes of items during period											
Profit attributable to owners of parent			269		269						269
Dividends of surplus			(148)		(148)						(148)
Purchases of treasury shares				(1)	(1)						(1)
Disposal of treasury shares				15	15						15
Net changes of items other than shareholders' equity						87	(61)	57	82		82
Total changes of items during period	-	-	121	14	135	87	(61)	57	82	-	218
Balance at March 31, 2018	¥ 6,025	¥ 6,948	¥ 6,273	¥ (168)	¥ 19,079	¥ 439	¥ (176)	¥ 67	¥ 330	¥ -	¥ 19,409

Thousands of U.S. dollars

	Shareholders' equity				Accumulated other comprehensive income				Non-controlling interests	Total net assets	
	Capital stock	Capital Surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans			Total accumulated other comprehensive income
Balance at March 31, 2016	\$ 56,715	\$ 65,343	\$ 43,748	\$ (1,735)	\$ 164,073	\$ 1,463	\$ (1,030)	\$ (1,287)	\$ (855)	\$ 1,709	\$ 164,927
Changes of items during period											
Profit attributable to owners of parent			14,167		14,167						14,167
Change in ownership interest of parent due to transactions with non-controlling interests		59			59						59
Purchases of treasury shares				(4)	(4)						(4)
Disposal of treasury shares				18	18						18
Net changes of items other than shareholders' equity						1,851	(52)	1,387	3,186	(1,709)	1,477
Total changes of items during period	-	59	14,167	14	14,240	1,851	(52)	1,387	3,186	(1,709)	15,717
Balance at March 31, 2017	\$ 56,715	\$ 65,402	\$ 57,915	\$ (1,720)	\$ 178,313	\$ 3,314	\$ (1,082)	\$ 100	\$ 2,331	\$ -	\$ 180,645
Changes of items during period											
Profit attributable to owners of parent			2,533		2,533						2,533
Dividends of surplus			(1,394)		(1,394)						(1,394)
Purchases of treasury shares				(11)	(11)						(11)
Disposal of treasury shares				147	147						147
Net changes of items other than shareholders' equity						820	(582)	539	777		777
Total changes of items during period	-	-	1,139	136	1,275	820	(582)	539	777	-	2,052
Balance at March 31, 2018	\$ 56,715	\$ 65,402	\$ 59,054	\$ (1,583)	\$ 179,588	\$ 4,134	\$ (1,665)	\$ 639	\$ 3,109	\$ -	\$ 182,697

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars	
	2017	2018	2017	2018
Cash flows from operating activities:				
Profit before income taxes	¥ 2,608	¥ 309	\$ 24,553	\$ 2,915
Depreciation	1,065	1,070	10,028	10,074
Increase (decrease) in allowance for doubtful accounts	(14)	4	(139)	43
Increase (decrease) in net defined benefit liability	(427)	203	(4,022)	1,917
Interest and dividend income	(66)	(72)	(624)	(684)
Interest expenses	3	3	29	29
Compensation for removal	(889)	-	(8,370)	-
Extra retirement payment	1,309	-	12,323	-
Decrease (increase) in notes and accounts receivable-trade	143	(398)	1,354	(3,752)
Decrease (increase) in inventories	264	(928)	2,491	(8,744)
Increase (decrease) in notes and accounts payable-trade	(497)	279	(4,682)	2,629
Other, net	(2,266)	(165)	(21,336)	(1,558)
Subtotal	1,232	305	11,605	2,871
Interest and dividend income received	93	72	883	684
Interest expenses paid	(3)	(3)	(29)	(28)
Income taxes paid	(60)	(51)	(569)	(480)
Extra retirement payments	(1,309)	-	(12,323)	-
Other, net	(126)	-	(1,191)	-
Net cash provided by (used in) operating activities	(172)	323	(1,624)	3,047
Cash flows from investing activities:				
Purchase of securities	(1,200)	(1,800)	(11,295)	(16,942)
Proceeds from redemption of securities	600	2,700	5,647	25,414
Purchase of property, plant and equipment	(464)	(263)	(4,376)	(2,475)
Purchase of intangible assets	(431)	(257)	(4,057)	(2,425)
Purchase of investment securities	(1,312)	(406)	(12,355)	(3,823)
Proceeds from withdrawal of time deposits	1,320	120	12,424	1,129
Other, net	62	(79)	586	(748)
Net cash provided by (used in) investing activities	(1,426)	13	(13,426)	128
Cash flows from financing activities:				
Cash dividends paid	(1)	(146)	(13)	(1,376)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(175)	-	(1,649)	-
Other, net	(25)	32	(243)	304
Net cash provided by (used in) financing activities	(202)	(113)	(1,905)	(1,072)
Effect of exchange rate change on cash and cash equivalents	(3)	(32)	(29)	(304)
Net increase (decrease) in cash and cash equivalents	(1,804)	191	(16,985)	1,798
Cash and cash equivalents at beginning of period	7,608	5,803	71,614	54,628
Cash and cash equivalents at end of period	5,803	5,994	54,628	56,426

IWATSU ELECTRIC CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2017 AND 2018

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, 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)	¥ 1,428	¥ 130	¥ 132	¥ (1,530)	¥ 161
Assets	¥ 13,333	¥ 1,887	¥ 2,179	¥ 11,542	¥ 28,942
Other:					
Depreciation	¥ 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

	Millions of yen				
	Business communication systems	Printing systems	Test and measurement equipment	Reconciliations	Consolidated
For the year ended March 31, 2018:					
Net sales:					
Outside customers	¥ 15,737	¥ 2,671	¥ 3,177	¥ -	¥ 21,586
Inter-segment total	-	-	-	-	-
	<u>15,737</u>	<u>2,671</u>	<u>3,177</u>	<u>-</u>	<u>21,586</u>
Operating income (loss)	¥ 1,281	¥ 108	¥ 221	¥ (1,499)	¥ 112
Assets	¥ 13,490	¥ 1,996	¥ 2,422	¥ 11,385	¥ 29,295
Other:					
Depreciation	¥ 819	¥ 82	¥ 58	¥ 110	¥ 1,070
Amortization of goodwill	0	-	-	-	0
Increase of property, plant and equipment and intangible assets	390	34	39	54	519

*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, 2017 AND 2018

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	\$ 156,372	\$ 27,356	\$ 26,687	\$ -	\$ 210,416
Inter-segment	-	-	-	-	-
total	156,372	27,356	26,687	-	210,416
Operating income (loss)	\$ 13,447	\$ 1,232	\$ 1,248	\$ (14,407)	\$ 1,521
Assets	\$ 125,502	\$ 17,769	\$ 20,510	\$ 108,647	\$ 272,429
Other:					
Depreciation	\$ 7,752	\$ 714	\$ 537	\$ 771	\$ 9,775
Amortization of goodwill	2	-	-	-	2
Increase of property, plant and equipment and intangible assets	4,704	592	466	1,198	6,961
Thousands of U.S. dollars					
	Business communication systems	Printing systems	Test and measurement equipment	Reconciliations	Consolidated
For the year ended March 31, 2018:					
Net sales:					
Outside customers	\$ 148,129	\$ 25,142	\$ 29,909	\$ -	\$ 203,181
Inter-segment	-	-	-	-	-
total	148,129	25,142	29,909	-	203,181
Operating income (loss)	\$ 12,064	\$ 1,018	\$ 2,087	\$ (14,111)	\$ 1,059
Assets	\$ 126,984	\$ 18,788	\$ 22,805	\$ 107,168	\$ 275,747
Other:					
Depreciation	\$ 7,710	\$ 776	\$ 547	\$ 1,040	\$ 10,074
Amortization of goodwill	1	-	-	-	1
Increase of property, plant and equipment and intangible assets	3,671	327	376	517	4,893