

# Annual Report

(From April 1, 2017 to March 31, 2018)

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## 1. Business Activities and Results of Business

The business results for this fiscal year (April 2017 to March 2018) included revenues of 30,716 million yen (down 6.2% from the previous fiscal year), a loss before income tax of 539 million yen (down 1,499 million yen from the previous fiscal year), and a net loss of 376 million yen (down 1,065 million yen from the previous fiscal year).

A summary of the general business situation is presented below.

### Instruments & control systems

This fiscal year, the scope of business activities expanded with the transfer of the automotive business from the Industrial Equipment Solutions Division. However, revenues were down from the previous fiscal year as a result of a decline in sales due to factors such as delays in large orders for control/monitoring systems, and income before income tax earnings were also negative.

As a result, the division's revenues were 17,595 million yen (down 6.3% from the previous fiscal year), and the loss before income tax was 751 million yen (down 1,712 million yen from the previous fiscal year).

### ICT solutions

This fiscal year, revenues increased from the previous fiscal year thanks to the continued steady growth of unified communication-related products and cloud solutions-related services. Meanwhile, income before income tax earnings increased significantly, due in a large part to improvements in the cost of sales related to IoT solutions.

As a result, the division's revenues were 10,578 million yen (up 4.4% from the previous fiscal year), and income before income tax earnings were 261 million yen (up 293.0% from the previous fiscal year).

### Industrial equipment solutions

This fiscal year, revenues declined sharply from the previous fiscal year. This was because the scope of business activities was reduced through the transfer of the automotive business to the Instruments & Control Systems division, as well as the postponement of overseas capital investments by our business partners in the advanced device manufacturing equipment sector. Income before income tax earnings were also negative due to business restructuring expenses.

As a result, the division's revenues were 2,477 million yen (down 34.0% from the previous fiscal year), and the loss before income tax was 46 million yen (down 52 million yen from the previous fiscal year).

Organized into customer types (domestic, export, import, and overseas), the results are as follows:

Domestic customers: 26,061 million yen (down 10.7% from the previous fiscal year)

Export customers: 1,998 million yen (up 40.6% from the previous fiscal year)

Import customers: 2,373 million yen (up 20.2% from the previous fiscal year)

Overseas customers: 284 million yen (up 76.4% from the previous fiscal year)

The breakdown of these categories in terms of total revenues is as follows: domestic customers 84.9%, export customers 6.5%, import customers 7.7%, overseas customers 0.9%.

Domestic customers declined significantly compared to the previous fiscal year, reflecting a decline in sales due to factors such as delays in large orders for control/monitoring systems. There were substantial increases in export customers, mainly due to growth in sales of large FPD mask wet cleaning systems, and in import customers, mainly due to growth in sales of CAD/CAE software licenses.

This concludes the summary of the general business situation.

## **2. Issues to Address**

In Japan, consumer spending is expected to remain steady thanks to sustained positive employment conditions and improved income conditions, and the moderate economic recovery, including increased corporate capital investment, is expected to continue. Steady growth is also expected in the United States against the background of improved employment conditions and the economic effects of the large tax cuts. On the other hand, the global economy as a whole is expected to remain in an uncertain state amid concerns about the pace of growth in the European Union, the slowdown of the Chinese economy, and heightened geopolitical risks, most notably in the Korean peninsula and the Middle East.

In this business environment, we are positioning our IoT technology at the core of an expanded range of business offerings, including a total solution for boosting production efficiency in the manufacturing industry, as well as a cloud solution for control security offered as a common platform.

Going forward, we aim to implement our strategy of driving growth through speedy customer-focused business promotion in order to further enhance and stabilize our business foundation, and increase our earnings.

### 3. Changes in the status of our assets and profits

| Years ended March 31, 2016 and 2018 | Millions of yen |        |          |
|-------------------------------------|-----------------|--------|----------|
|                                     | 2015            | 2016   | 2017     |
| Revenues                            | 35,373          | 32,733 | 30,716   |
| Net income(loss)                    | 542             | 689    | (376)    |
| Total assets                        | 23,302          | 23,432 | 21,770   |
| Total Stockholder's Equity          | 8,647           | 9,618  | 9,010    |
| Per share data(¥)                   |                 |        |          |
| Net income(loss)                    | 67,704          | 86,112 | (47,033) |

#### 4. Description of main business

The main products handled by our company are as below.

| Division                                 | Main Products  |
|--|--|
| <b>Instruments &amp; control systems</b> | <ul style="list-style-type: none"> <li>■ <b>Control/monitoring systems, Analysis equipment</b><br/>Distributed Control System (DCS), Online mass spectrometer, Water quality analyzer, Rapid Microbial Testing System</li> <li>■ <b>Industrial instruments (Measuring equipment)</b><br/>Differential pressure/pressure transmitter, Electromagnetic flowmeter, Ultrasonic flowmeter, Level meter</li> <li>■ <b>IT solutions</b><br/>Integrated MES solutions, Process management system, Omen and Diagnosis system, Pharmaceutical manufacturing execution system, Control security</li> <li>■ <b>Environment process analysis equipment</b><br/>Stack gas analyzer, Process gas analyzer, Air pollution monitoring instrument, Water pollution analyzer, Industrial PH meter, Inline refractometer</li> <li>■ <b>Printing inspection systems</b><br/>Ink jet printer, Vision system</li> </ul> |
| <b>ICT solutions</b>                     | <ul style="list-style-type: none"> <li>■ <b>IoT solutions/data analysis solutions</b><br/>PTC/ThingWorx, TIBCO/Spotfire, Flutura/Cerebra</li> <li>■ <b>IoT/Control security cloud solutions</b><br/>IoT cloud solutions, Control security solutions, Private cloud solutions</li> <li>■ <b>Digital engineering solutions</b><br/>CAE solutions, 3-D printers, PC base real-time controllers, AGV operational management solutions</li> <li>■ <b>Unified communication</b><br/>CISCO, AVer, Lifesize, EZ Conference, Vyopta vAnalytics, Vbrick, TechSee, "Robocot" AI communication robot</li> <li>■ <b>Video/disaster prevention solutions</b><br/>Television news flash system (BroadCATV), Drone utilization service, Import video equipment/systems</li> </ul>  |
| <b>Industrial equipment solutions</b>    | <ul style="list-style-type: none"> <li>■ <b>Advanced electric device manufacturing systems</b><br/>Ion beam etching system, Wet processing system (Wet cleaning, Resist removing, Chemical processing), CMP, Metal plating system, Wafer edge polishing system, Laser marker system, Resin molding system, Scanning acoustic tomography and inspection system</li> <li>■ <b>FPD manufacturing systems</b><br/>FPD Mask wet cleaning system, FPD Mask substrate inspection system, FPD glass substrate transfer system</li> <li>■ <b>Electro components</b><br/>Dry vacuum pumps, Reactive gas treatment system</li> </ul>  |

Note: The Industrial Equipment Solutions division was transferred to Hitachi High-Technologies Corporation, a Group company, effective April 1, 2018.

## 5. Company Data (As of the end of March, 2018)

|                                |  |
|--------------------------------|--|
| <b>Date Established</b>        | October 1, 1987                            |
| <b>Capital</b>                 | 400 million yen                            |
| <b>Number of Employees</b>     | 680  |
| <b>Number of Issued Shares</b> | 8,000 shares                               |
| <b>Stockholder</b>             | Hitachi High-Technologies Corporation 100% |

## 6. Board of Directors and Auditor

As of April 1, 2018

| <b>Name</b>           | <b>Position and Responsibilities</b>  | <b>Concurrent Roles</b>  |
|-----------------------|---|--|
| Takashi Iizumi        | President<br>(Corporate Administration)   | Executive Officer of Hitachi High-Technologies Corporation                     |
| Shigeru Sugiyama      | Executive Managing Director<br>(Consolidated Instruments Business Relations, Instruments & Control Systems) |  |
| Yoshio Miura          | Director<br>(Quality Assurance)   |  |
| Takashiro Hirabayashi | Director<br>(Digital Solution Business)   | Director of Chorus Call Asia Corporation                                       |
| Yoshimitsu Saze       | Director<br>(Consolidated Instruments Business Relations, Instruments & Control Systems, Mito)              |  |
| Yoshito Yokoi         | Director<br>(General Administration, Office for Export Management Relations)                                |  |
| Satoshi Tonoike       | Director<br>(Sales & Marketing)   |  |
| Taku Sakazume         | Director  |  |
| Toshiyuki Tarumi      | Audit & Supervisory Board Member  | Audit & Supervisory Board Member of Hitachi High-Tech Fine Systems Corporation |
| Yuichi Horiuchi       | Audit & Supervisory Board Member  | Audit & Supervisory Board Member of Hitachi High-Tech Science Corporation      |

## 7. Main Places of Business (As of the end of March, 2018)

(Japanese Place of Business)

| <b>Main Offices</b>      | <b>Location</b>          |
|--------------------------|--------------------------|
| ■ Head Quarter           | Chuo-ku, Tokyo           |
| ■ Mito Division          | Mito-shi, Ibaraki        |
| ■ Kansai Branch Office   | Osaka-shi, Osaka         |
| ■ Chubu Branch Office    | Nagoya-shi, Aichi        |
| ■ Hokkaido Sales Office  | Sapporo-shi, Hokkaido    |
| ■ Tohoku Sales Office    | Sendai-shi, Miyagi       |
| ■ Ibaraki Sales Office   | Hitachinaka-shi, Ibaraki |
| ■ Kashima Sales Office   | Kamisu-shi, Ibaraki      |
| ■ Chiba Sales Office     | Ichihara-shi, Chiba      |
| ■ Yokkaichi Sales Office | Yokkaichi-shi, Mie       |
| ■ Chugoku Sales Office   | Hiroshima-shi, Hiroshima |
| ■ Shikoku Sales Office   | Takamatsu-shi, Kagawa    |
| ■ Kyushu Sales Office    | Fukuoka-shi, Fukuoka     |

## 8. Statement of Financial Position

Millions of yen

|  | As of March 31, 2017 | As of March 31, 2018 |
|--|----------------------|----------------------|
| <b>Assets</b>  |                      |                      |
| Current assets                                       |                      |                      |
| Cash and cash equivalents                            | 4,153                | 2,587                |
| Trade receivables                                    | 12,079               | 11,246               |
| Other financial assets                               | 141                  | 72                   |
| Inventories  | 1,962                | 2,007                |
| Income taxes receivable                              | -                    | 172                  |
| Other current assets                                 | 672                  | 1,091                |
| Total current assets                                 | 19,007               | 17,175               |
| Non-current assets                                   |                      |                      |
| Property, plant and equipment                        | 2,273                | 2,263                |
| Intangible assets                                    | 449                  | 518                  |
| Investments in securities and other financial assets | 174                  | 195                  |
| Deferred tax assets                                  | 1,514                | 1,611                |
| Other non-current assets                             | 14                   | 9                    |
| Total non-current assets                             | 4,425                | 4,595                |
| Total assets   | 23,432               | 21,770               |

Millions of yen

|  | As of March 31, 2017 | As of March 31, 2018 |
|--|----------------------|----------------------|
| <b>Liabilities</b>                       |                      |                      |
| Current liabilities                      |                      |                      |
| Trade payables                           | 7,950                | 6,626                |
| Other financial liabilities              | 969                  | 896                  |
| Income taxes payable                     | 341                  | 183                  |
| Accrued expenses                         | 1,571                | 1,699                |
| Advances received                        | 617                  | 1,414                |
| Provisions                               | 17                   | 4                    |
| Total current liabilities                | 11,465               | 10,822               |
| Non-current liabilities                  |                      |                      |
| Other financial liabilities              | 240                  | 0                    |
| Retirement and severance benefits        | 1,941                | 1,765                |
| Provisions                               | 131                  | 132                  |
| Other non-current liabilities            | 37                   | 41                   |
| Total non-current liabilities            | 2,349                | 1,939                |
| Total liabilities                        | 13,814               | 12,760               |
| <b>Equity</b>                            |                      |                      |
| Stockholders' equity                     |                      |                      |
| Common stock                             | 400                  | 400                  |
| Capital surplus                          | 100                  | 100                  |
| Retained earnings                        | 8,830                | 8,178                |
| Accumulated other comprehensive income   | 288                  | 332                  |
| Total Stockholders' Equity               | 9,618                | 9,010                |
| Total Liabilities & Stockholders' Equity | 23,432               | 21,770               |

### Notes:

The above financial data is based on International Financial Reporting Standards (IFRS).  
All figures have been rounded to the nearest million yen.



## 9. Statement of Profit or Loss and Statement of Comprehensive Income

| Years ended March 31, 2017 and 2018                                | Millions of yen |              |
|--|-----------------|--------------|
|  | 2016            | 2017         |
| Revenues   | 32,733          | 30,716       |
| Cost of sales  | (26,627)        | (26,013)     |
| Gross profit   | <u>6,107</u>    | <u>4,703</u> |
| Selling, general and administrative expenses                       | (5,156)         | (5,257)      |
| Other income   | 12              | 10           |
| Other expenses   | (19)            | (3)          |
| Operating profit (loss)  | <u>944</u>      | <u>(547)</u> |
| Financial income   | 6               | -            |
| Financial expenses   | 1               | (1)          |
| EBIT (Earnings before interest and taxes)                          | <u>951</u>      | <u>(548)</u> |
| Interest income  | 9               | 9            |
| Interest charges   | (1)             | (0)          |
| Income (loss) before income taxes                                  | <u>959</u>      | <u>(539)</u> |
| Income taxes - current   | (239)           | 7            |
| Income taxes - deferred  | (31)            | 156          |
| Net income (loss)  | <u>689</u>      | <u>(376)</u> |
| Other comprehensive income (OCI)                                   |                 |              |
| Items not to be reclassified into net income                       |                 |              |
| Net changes in financial assets measured at fair value through OCI | -               | (90)         |
| Remeasurements of defined benefit plans                            | 453             | 134          |
| Items that can be reclassified into net income                     |                 |              |
| Net changes in cash flow hedges                                    | 0               | 0            |
| Other comprehensive income (OCI)                                   | <u>453</u>      | <u>44</u>    |
| Comprehensive income (loss)  | <u>1,142</u>    | <u>(333)</u> |

### Notes:

The above financial data is based on International Financial Reporting Standards (IFRS).

All figures have been rounded to the nearest million yen.

## 10. Statement of Changes in Equity

Millions of yen

|                                    | Common stock | Capital surplus | Retained earnings |
|------------------------------------|--------------|-----------------|-------------------|
| As of March 31,2016                | 400          | 100             | 8,311             |
| Net income (loss)                  |              |                 | 689               |
| Other comprehensive income         |              |                 |                   |
| Comprehensive income (loss)        | -            | -               | 689               |
| Dividends                          |              |                 | (170)             |
| Total transactions with the owners | -            | -               | (170)             |
| As of March 31,2017                | 400          | 100             | 8,830             |
| Net income (loss)                  |              |                 | (376)             |
| Other comprehensive income         |              |                 |                   |
| Comprehensive income (loss)        | -            | -               | (376)             |
| Dividends                          |              |                 | (276)             |
| Total transactions with the owners | -            | -               | (276)             |
| As of March 31,2018                | 400          | 100             | 8,178             |

Millions of yen

|                                    | Accumulated other comprehensive income                             |   |                                 |  | Total equity |
|------------------------------------|--|---|---------------------------------|--|--------------|
|                                    | Net changes in financial assets measured at fair value through OCI | Remeasurements of defined benefit plans | Net changes in cash flow hedges | Total accumulated other comprehensive income |              |
| As of March 31,2016                | -  | (165)                                   | (0)                             | (165)  | 8,647        |
| Net income (loss)                  |  |   |                                 | -  | 689          |
| Other comprehensive income         |  | 453                                     | 0                               | 453  | 453          |
| Comprehensive income (loss)        | -  | 453                                     | 0                               | 453  | 1,142        |
| Dividends                          |  |   |                                 | -  | (170)        |
| Total transactions with the owners | -  | -                                       | -                               | -  | (170)        |
| As of March 31,2017                | -  | 288                                     | 0                               | 288  | 9,618        |
| Net income (loss)                  |  |   |                                 | -  | (376)        |
| Other comprehensive income         | (90)   | 134                                     | (0)                             | 44   | 44           |
| Comprehensive income (loss)        | (90)   | 134                                     | (0)                             | 44   | (333)        |
| Dividends                          |  |   |                                 | -  | (276)        |
| Total transactions with the owners | -  | -                                       | -                               | -  | (276)        |
| As of March 31,2018                | (90)   | 422                                     | (0)                             | 332  | 9,010        |

Notes:

The above financial data is based on International Financial Reporting Standards (IFRS).

All figures have been rounded to the nearest million yen.

## 11. Statements of Cash Flows

Years ended March 31, 2017 and 2018

Millions of yen

|  | 2016  | 2017    |
|--|-------|---------|
| Cash flows from operating activities:          |       |         |
| Net Income                                     | 689   | (376)   |
| Depreciation and amortization                  | 640   | 670     |
| Increase (decrease) in trade receivables       | (105) | 833     |
| Increase (decrease) in advance payments        | 6     | (397)   |
| Increase (decrease) in inventories             | (31)  | (45)    |
| Increase (decrease) in trade payables          | 84    | (1,324) |
| Increase (decrease) in advances received       | (201) | 797     |
| Decrease in Net Defined Benefit Liability      | (160) | (222)   |
| Income Taxes Paid (Refund)                     | 123   | (163)   |
| Other  | 159   | (258)   |
| Net cash provided by operating activities      | 1,204 | (485)   |
| Cash flows from investing activities:          |       |         |
|  | (267) | (803)   |
| Cash flows from financing activities:          |       |         |
|  | (173) | (278)   |
| Net increase in cash and cash equivalents      | 764   | (1,566) |
| Cash and cash equivalents at beginning of year | 3,389 | 4,153   |
| Cash and cash equivalents at end of year       | 4,153 | 2,587   |

