

IWATSU ELECTRIC CO., LTD.

2011 ANNUAL REPORT
For the year ended March31, 2011

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Overview of Fiscal Year 2010

The economy of Japan during the fiscal year under review showed an upward momentum in some industries owing to active demands in Asian markets and stimulative measures implemented by the government. However, economic uncertainty still persists on the whole primarily due to a high level of unemployment, sluggish consumer spending, appreciation of the yen against U.S. dollar in the latter of the fiscal year and surge of raw materials such as crude oil. The sense of anxiety was fortified by the Great Eastern Earthquake (the "Earthquake") on March 11, 2011 and turmoil caused by the subsequently occurred nuclear accident. Our line of business has also showed a moderate rate of recovery since the first half of the fiscal year though, unpredictable situation still continues.

Under the circumstances, IWATSU Group addressed improvement of the financial condition aggressively by restructuring our divisional organization system and promoting cost cutting measures of fixed costs implemented in the previous term. To further accelerate, we also promoted cost reductions on manufacturing costs and miscellaneous expenses. In September 2010, we formulated our new Mid-term business plan "Challenge & Innovation" for the fiscal year 2010 through 2012. In line with its basic policy, we have been working diligently on implementing our growth strategy. As part of it, in order to streamline our business, we conducted comprehensive review of Telecommunication business in North America and transferred shares of our sales subsidiary in the U.S., IWATSU AMERICA INC., to a local company in March 2011. On the other hand, we have laid a foundation of our growth strategy by entering new fields such as label printing industry and businesses that benefit from wireless authentication technology.

Consolidated net sales during the term under review amounted to 26,856 million yen, a decrease of 0.8% compared to the previous fiscal year. The decrease is due to slow recovery of Telecommunications products which are our core products, sales decrease of Test Instrument systems for a specific customer and effects of the Earthquake that are estimated around 400 million yen, although there exist a bright side such as recovery in production material industry in the first half and acquisition of a big deal. In terms of profit, consolidated operating profit/ loss resulted in a loss of 331 million yen, down from the previous term (1,430 million yen) even with a reduction in sales. The improvement was made due to the Group-wide efforts to achieve better profit margin and reduce fixed costs. The net profit/ loss amounted to a profit of 3,597 million yen, improved from the previous term (a loss of 2,114 million yen). As extraordinary incomes, we posted 5,297 million yen for gain on sales of land associated with the expropriation of a road site by Tokyo Metropolitan Government and 2,154 million yen for compensation for transfer of property, respectively. We also posted as extraordinary losses 801 million yen for a loss on liquidation of IWATSU AMERICA INC., 586 million yen for non-recurring depreciation on software developed for Telecommunications products and 188 million yen for a loss caused by the Earthquake.

It can be predicted that sever economic and market conditions will likely continue in Japan due to the effects and concerns caused by the Earthquake and nuclear accident thereafter, escalating crude oil prices and high yen against U.S. dollars.

In line with the principle of our Mid-term business plan, 'Challenge' and 'Innovation', IWATSU Group will make continuous endeavors to accomplish consolidated net sales of 33,000 million yen and consolidated operating profit of 700 million for the fiscal year ended March 2013, which is the last year of the Mid-term business plan. Our endeavors are twofold; Challenge growing business field for the establishment of new business, and Innovate our business structure and make profits from the existing businesses. We will work on to expand our sales from Label printing machine which we have been focusing on since the latter half of the previous fiscal year, new businesses such as Power electronics devices, Wireless authentication systems and Cloud-type contact centers etc., new business phone "LEVANCIO" and new digital oscilloscope "ViewGo II". At the same time, we will make efforts to streamline our business and enhance consciousness of the employees.

With above measures in place, we foresee 26,800 million yen in consolidated sales, 300 million yen in both consolidated operating and net loss in the fiscal year ended March 2012. We appreciate the support received from our shareholders and other stakeholders, and we sincerely ask for your ongoing support.

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED BALANCE SHEETS
March 31, 2011 and 2010

<u>ASSETS</u>	Millions of yen		Thousands of U.S. dollars	
	2011	2010	2011	2010
Current assets:				
Cash	¥ 9,791	¥ 9,846	\$ 117,751	\$ 118,413
Notes and accounts receivable - trade:				
Unconsolidated subsidiaries and affiliated companies	133	127	1,600	1,527
Other	5,912	7,060	71,100	84,907
Short-term investment securities	999	999	12,014	12,014
Inventories	3,367	3,210	40,493	38,605
Deferred tax assets	34	35	409	421
Other current assets	688	422	8,274	5,075
Allowance for doubtful accounts	(93)	(101)	(1,118)	(1,215)
Total current assets	20,831	21,598	250,523	259,747
Property, plant and equipment, at cost				
Land	983	994	11,822	11,954
Buildings and structures	10,549	11,434	126,867	137,511
Machinery and equipment	12,272	13,034	147,589	156,753
Lease assets	82	17	986	204
Construction in progress	18	12	216	144
	23,904	25,491	287,480	306,566
Accumulated depreciation	(19,948)	(20,967)	(239,904)	(252,159)
Accumulated impairment loss	(88)	(124)	(1,058)	(1,491)
	3,868	4,400	46,518	52,916
Intangible assets	1,125	2,074	13,530	24,943
Investments and other assets:				
Investment securities	978	1,086	11,762	13,061
Investments in unconsolidated subsidiaries and affiliated companies	447	428	5,376	5,147
Long-term loans receivable:				
Other	140	12	1,684	144
Long-term prepaid expenses	12	34	144	409
Deferred tax assets	50	52	601	625
Other assets	567	806	6,818	9,692
Allowance for doubtful accounts	(177)	(121)	(2,129)	(1,455)
	2,017	2,297	24,256	27,623
	¥ 27,841	¥ 30,369	\$ 334,829	\$ 365,229

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED BALANCE SHEETS
March 31, 2011 and 2010

<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>	Millions of yen		Thousands of U.S. dollars	
	2011	2010	2011	2010
Current liabilities:				
Short-term loans payable	¥ 40	¥ 40	\$ 481	\$ 481
Long-term debt due within one year	120	227	1,443	2,730
Notes and accounts payable - trade:				
Unconsolidated subsidiaries and affiliated companies	39	42	469	505
Other	1,802	2,231	21,672	26,831
Accounts payable - other	961	932	11,557	11,209
Accrued liabilities	1,322	1,275	15,899	15,334
Suspense receipt	0	7,033	0	84,582
Income taxes payable	137	103	1,648	1,239
Other current liabilities	407	306	4,895	3,680
Total current liabilities	4,828	12,189	58,064	146,591
Long-term debt due after one year	85	205	1,022	2,465
Severance and retirement benefits for employees	3,180	3,058	38,244	36,777
Deferred tax liabilities	1,289	81	15,502	974
Other liabilities	897	670	10,788	8,058
Minority interests	126	144	1,515	1,732
Stockholders' equity:				
Common stock				
Authorized - 300,000,000 shares				
Issued - 100,803,447 shares	6,025	6,025	72,459	72,459
Capital surplus	6,942	6,942	83,488	83,488
Retained earnings	5,200	1,602	62,538	19,266
Net unrealized holding gains on securities	(35)	48	(421)	577
Foreign currency translation adjustments	(647)	(547)	(7,781)	(6,581)
	17,485	14,070	210,283	169,209
Less treasury stock of 296,035 shares (285,487 shares in 2010), at cost	(49)	(48)	(589)	(577)
Total stockholders' equity	17,436	14,022	209,694	168,632
	¥ 27,841	¥ 30,369	\$ 334,829	\$ 365,229

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended March 31, 2011 and 2010

	Millions of yen						
	Number of Shares of common stock	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2009	100,803,447	¥ 6,025	¥ 6,942	¥ 3,716	¥ (21)	¥ (478)	¥ (47)
Net income (loss)	-	-	-	(2,114)	-	-	-
Adjustments from translation of foreign currency financial statements	-	-	-	-	-	(69)	-
Increase of net unrealized holding gains on securities	-	-	-	-	69	-	-
Treasury stock	-	-	-	-	-	-	(1)
Balance at March 31, 2010	<u>100,803,447</u>	<u>¥ 6,025</u>	<u>¥ 6,942</u>	<u>¥ 1,602</u>	<u>¥ 48</u>	<u>¥ (547)</u>	<u>¥ (48)</u>
Net income (loss)	-	-	-	3,598	-	-	-
Adjustments from translation of foreign currency financial statements	-	-	-	-	-	(100)	-
Increase of net unrealized holding gains on securities	-	-	-	-	(83)	-	-
Treasury stock	-	-	-	-	-	-	(1)
Balance at March 31, 2011	<u>100,803,447</u>	<u>¥ 6,025</u>	<u>¥ 6,942</u>	<u>¥ 5,200</u>	<u>¥ (35)</u>	<u>¥ (647)</u>	<u>¥ (49)</u>

	Thousands of U.S. dollars					
	Common stock	Capital Surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2009	\$ 72,459	\$ 83,488	\$ 44,690	\$ (254)	\$ (5,749)	\$ (565)
Net income (loss)	-	-	(25,424)	-	-	-
Adjustments from translation of foreign currency financial statements	-	-	-	-	(830)	-
Decrease of net unrealized holding gains on securities	-	-	-	830	-	-
Treasury stock	-	-	-	-	-	(12)
Balance at March 31, 2010	<u>\$ 72,459</u>	<u>\$ 83,488</u>	<u>\$ 19,266</u>	<u>\$ 577</u>	<u>\$ (6,581)</u>	<u>\$ (577)</u>
Net income (loss)	-	-	43,271	-	-	-
Adjustments from translation of foreign currency financial statements	-	-	-	-	(1,203)	-
Decrease of net unrealized holding gains on securities	-	-	-	(998)	-	-
Treasury stock	-	-	-	-	-	(12)
Balance at March 31, 2011	<u>\$ 72,459</u>	<u>\$ 83,488</u>	<u>\$ 62,538</u>	<u>\$ (421)</u>	<u>\$ (7,781)</u>	<u>\$ (589)</u>

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2011 and 2010

	Millions of yen		dollars	
	2011	2010	2011	2010
Cash flows from operating activities:				
Income (loss) before income taxes and minority interests	¥ 4,943	¥ (1,998)	\$ 59,447	\$ (24,028)
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation	1,585	1,704	19,062	20,493
Impairment loss	-	83	-	998
Non-recurring depreciation on noncurrent assets	587	-	7,060	-
Increase (Decrease) in allowance for doubtful accounts	(29)	(194)	(349)	(2,333)
Increase (Decrease) in severance and retirement benefits	125	14	1,503	168
Interest and dividend income	(30)	(43)	(361)	(517)
Interest expense	12	23	144	277
Equity in earnings (losses) of affiliates	(10)	(21)	(120)	(253)
Gain on sale of property, plant and equipment	(5,298)	(3)	(63,716)	(36)
Loss on sale and disposal of property, plant and equipment	370	46	4,450	553
Compensation for removal	(2,154)	-	(25,905)	-
Loss on liquidation of subsidiaries and affiliates	801	-	9,633	-
Retirement payments	-	452	-	5,436
Changes in operating assets and liabilities - net:				
Decrease (Increase) in notes and accounts receivable - trade	887	731	10,667	8,791
Decrease in inventories	(348)	874	(4,185)	10,511
Decrease in notes and accounts payable - trade	(225)	(257)	(2,706)	(3,091)
Increase in accrued expenses	(172)	(482)	(2,069)	(5,797)
Other - net	281	(126)	3,379	(1,515)
Subtotal	1,324	802	15,923	9,645
Interest and dividend received	29	41	349	493
Interest paid	(12)	(23)	(144)	(277)
Retirement payments	-	(452)	-	(5,436)
Income taxes paid	(104)	(172)	(1,251)	(2,069)
Net cash provided by operating activities	1,236	196	14,865	2,357
Cash flows from investing activities:				
Decrease (Increase) in time deposits	5	323	60	3,885
Payment for purchase of short-term investment securities	(998)	(999)	(12,002)	(12,014)
Proceeds from sale of properties	1	7	12	84
Payment for purchase of properties, intangible assets and	(1,135)	(1,312)	(13,650)	(15,779)
Proceeds from liquidation of investment securities	1	34	12	409
Purchase of investments in subsidiaries resulting in change in scope of consolidation	-	109	-	1,311
Other - net	1,038	984	12,483	11,834
Net cash used in investing activities	(1,088)	(852)	(13,085)	(10,247)
Cash flows from financing activities:				
Decrease in short-term bank loans	-	(120)	-	(1,443)
Proceeds from long-term debt	-	76	-	914
Repayments of long-term debt	(227)	(931)	(2,730)	(11,197)
Dividends paid	-	(20)	-	(241)
Other - net	(37)	(11)	(445)	(132)
Net cash used in financing activities	(263)	(1,005)	(3,163)	(12,087)
Effect of exchange rate changes on cash and cash equivalents	(35)	(23)	(421)	(277)
Net increase in cash and cash equivalents	(151)	(1,684)	(1,816)	(20,277)
Cash and cash equivalents at beginning of year	9,758	11,444	117,354	137,631
Cash and cash equivalents at end of year	¥ 9,607	¥ 9,758	\$ 115,538	\$ 117,354

IWATSU ELECTRIC CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2011 AND 2010

Segment information

The Company's primary businesses are the manufacturing and sales of (1) Telecommunications equipment, (2) IT Networks Solutions (ITNS) equipment, (3) Electric measuring equipment and (4) Reprographic equipment.

A summary of net sales, costs and operating income by business segment for the years ended March 31, 2011 and 2010 was as follows:

	Millions of yen						
	Telecommunications equipment	ITNS equipment	Electric measuring equipment	Reprographic equipment	Others	Reconciliations	Consolidated
For the year ended March 31, 2011:							
Net sales:							
Outside customers	¥ 14,051	¥ 2,764	¥ 3,477	¥ 4,877	¥ 1,685	¥ -	¥ 26,857
Inter-segment	-	-	-	-	-	-	-
total	14,051	2,764	3,477	4,877	1,685	-	26,857
Operating income (loss)	¥ 178	¥ 216	¥ 101	¥ 725	¥ (331)	¥ (1,222)	¥ (332)
Identifiable assets	¥ 10,717	¥ 895	¥ 1,624	¥ 3,156	¥ 810	¥ 10,636	¥ 27,841
Depreciation	(1,074)	(55)	(95)	(144)	(26)	(188)	(1,585)
For the year ended March 31, 2010:							
Net sales:							
Outside customers	¥ 14,786	¥ 2,250	¥ 3,816	¥ 4,987	¥ 1,255	¥ -	¥ 27,096
Inter-segment	-	-	-	-	-	-	-
total	14,786	2,250	3,816	4,987	1,255	-	27,096
Operating income (loss)	¥ (554)	¥ 220	¥ (104)	¥ 540	¥ (302)	¥ (1,229)	¥ (1,430)
Identifiable assets	¥ 12,734	¥ 896	¥ 2,279	¥ 2,880	¥ 620	¥ 10,957	¥ 30,369
Depreciation	(1,215)	(71)	(99)	(154)	(12)	(150)	(1,704)

IWATSU ELECTRIC CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2011 AND 2010

Thousands of U.S. dollars							
	Telecommunications equipment	ITNS equipment	Electric measuring equipment	Reprographic equipment	Others (*1)	Reconciliations (*2)	Consolidated
For the year ended March 31, 2011:							
Net sales:							
Outside customers	\$ 168,984	\$ 33,241	\$ 41,816	\$ 58,653	\$ 20,265	\$ -	\$ 322,995
Inter-segment	-	-	-	-	-	-	-
total	<u>168,984</u>	<u>33,241</u>	<u>41,816</u>	<u>58,653</u>	<u>20,265</u>	<u>-</u>	<u>322,995</u>
Operating income (loss)	<u>\$ 2,141</u>	<u>\$ 2,598</u>	<u>\$ 1,215</u>	<u>\$ 8,719</u>	<u>\$ (3,981)</u>	<u>\$ (14,696)</u>	<u>\$ (3,993)</u>
Identifiable assets	\$ 128,888	\$ 10,764	\$ 19,531	\$ 37,956	\$ 9,741	\$ 127,913	\$ 334,829
Depreciation	(12,916)	(661)	(1,143)	(1,732)	(313)	(2,261)	(19,062)
For the year ended March 31, 2010:							
Net sales:							
Outside customers	\$ 177,823	\$ 27,060	\$ 45,893	\$ 59,976	\$ 15,093	\$ -	\$ 325,869
Inter-segment	-	-	-	-	-	-	-
total	<u>177,823</u>	<u>27,060</u>	<u>45,893</u>	<u>59,976</u>	<u>15,093</u>	<u>-</u>	<u>325,869</u>
Operating income (loss)	<u>\$ (6,663)</u>	<u>\$ 2,646</u>	<u>\$ (1,251)</u>	<u>\$ 6,494</u>	<u>\$ (3,632)</u>	<u>\$ (14,781)</u>	<u>\$ (17,198)</u>
Identifiable assets	\$ 153,145	\$ 10,776	\$ 27,408	\$ 34,636	\$ 7,456	\$ 131,774	\$ 365,232
Depreciation	(14,612)	(854)	(1,191)	(1,852)	(144)	(1,804)	(20,493)

*1 'Others' is a business segment not included in the reporting segments such as Component business etc.

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

The company-wide expenses are principally general expenses not belonging to reporting segments.

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

The company-wide assets are surplus funds such as cash, time deposits and securities etc that are not belonging to individual reporting segment.

*3 Segmentations by geographical area are omitted as the sales for the domestic customers exceeds 90% of consolidated net sales.