

IWATSU ELECTRIC CO., LTD.

2012 ANNUAL REPORT
For the year ended March 31, 2012

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Overview of Fiscal Year 2011

The business climate during the fiscal year under review saw some signs of an economic turnaround reflecting the positive prospect of the US economy and gradually diminishing concerns about the economic crisis in Europe in the latter half, in spite of the supply-chain turmoil caused by the flood in Thailand. The outlook of Japanese economy seems positive as well due to the stabilizing yen against the US dollar and strong reconstruction demands subsequent to the Great Eastern Earthquake (the "Earthquake").

Under these circumstances, IWATSU Group has been addressing its growth strategy in line with the basic principle of our mid term business plan, "Challenge & Innovation 2012", ending in the fiscal year 2012. As one of the measures of the plan, we transferred at the end of previous fiscal year the business rights of our sales subsidiary in the United States, IWATSU AMERICA INC., which had faced sluggish sales, to a local company. Concerning the re-alignment of factory functions for streamlining (unification of our Fukushima factories into one site) as another measure of the plan, we have suspended the implementation and have been in the process of re-examination in order to take the effects of the Earthquake into account. The flood in Thailand forced us to take additional actions such as securing replacement components and re-designing some products; however, we successfully managed to make the overall impact on our financial performance minimum.

Consolidated net sales during the term under review amounted to 25,425 million yen, a decrease of 5.3% from the previous fiscal year. The decrease is due to the transfer of business rights of our US subsidiary and the completion of delivery of Test Instrument systems to a specific customer, despite an increase in the sales of our Telecommunications business attributable principally to the reconstruction demands and orders from certain customers who needed to have additional inventory to manage with demands from the market after the Earthquake. In terms of profit, consolidated operating profit resulted in 12 million yen, improved from the previous term (a loss of 331 million yen). The improvement was achieved through the Group-wide efforts to accomplish better profit margin and reduce fixed costs. The net profit amounted to 97 million yen, down from the previous term (a profit of 3,597 million yen). This large variance is explained by, in particular, the extraordinary profits posted in the previous term such as (1) 5,297 million yen for gain on sale of land associated with the expropriation of a road site by Tokyo Metropolitan Government, and (2) 2,154 million yen for compensation for transfer of property.

It is predicted that volatile economic and market conditions will likely persist in Japan due to the escalating crude oil price being affected by the unstable Middle East situation, concerns about electricity shortage in summer, acceleration of Japanese industry's hollowing-out caused by shifting production facilities overseas to cope with appreciation of the yen and pursue higher components availability.

As a Group-wide effort, we will work diligently on implementing the growth strategy based upon our mid-term plan "Challenge & Innovation 2012". The plan is formed with two initiatives; take on the 'Challenge' of establishing new business in new fields, and 'Innovate' our business structure and make profits from the existing businesses. We regret to say, though, that as the launch of new business is being delayed, financial numbers of the plan are hard to accomplish as originally projected. In this situation, for the fiscal year 2012, we will aim to maintain the stable sales from the existing product lines such as business phone "LEVANCIO" and new oscilloscope "ViewGo II", while keeping the focus on early launch of new businesses such as label printing, power electronics, wireless authentication system, etc. At the same time, we will make every effort to streamline our business and change the mindset of the employees.

With the above measures in place, we have projected 25,800 million yen in consolidated sales, break even for both consolidated operating profit/ loss and net profit/ loss in the fiscal year ended March 2013. Your continued support would be highly appreciated.

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars	
	2012	2011	2012	2011
Net sales	¥ 25,425	¥ 26,856	\$ 309,346	\$ 326,763
Costs and expenses :				
Cost of sales	14,920	16,208	181,542	197,212
Selling, general and administrative expenses	10,492	10,979	127,656	133,586
	<u>25,412</u>	<u>27,187</u>	<u>309,198</u>	<u>330,798</u>
Operating income (loss)	12	(331)	148	(4,034)
Other income (expenses):				
Interest and dividends income	45	30	556	365
Interest expense	(8)	(12)	(106)	(151)
Purchase discounts	25	29	305	362
Provision of allowance for doubtful accounts	(21)	-	(261)	-
Equity in earnings (losses) of affiliates	41	10	499	126
Real estate rent	37	31	454	378
Rent expenses on real estates	(35)	(27)	(426)	(336)
Insurance and dividends income	27	22	340	270
Exchange gains (losses)	5	(8)	72	(106)
Gain on sale of property, plant and equipment	-	5,297	-	64,455
Loss on sale and disposal of property, plant and equipment	-	(369)	-	(4,501)
Non-recurring depreciation on noncurrent assets	-	(586)	-	(7,136)
Loss on sales of stocks of subsidiaries and affiliates	(99)	0	(1,213)	0
Compensation for removal	-	2,154	-	26,212
Compensation income	10	-	133	-
Office transfer expenses	-	(325)	-	(3,965)
Loss on liquidation of subsidiaries and affiliates	-	(801)	-	(9,746)
Gain on abolishment of retirement benefit plan	122	-	1,489	-
Special retirement expenses	(25)	-	(316)	-
Loss on disaster	(57)	(188)	(698)	(2,290)
Other - net	38	19	473	233
	<u>105</u>	<u>5,276</u>	<u>1,301</u>	<u>64,170</u>
Income (loss) before income taxes and minority interests	119	4,942	1,449	60,136
Income taxes :				
Current	100	110	1,222	1,343
Deferred	(91)	1,233	(1,108)	15,005
	<u>9</u>	<u>1,343</u>	<u>114</u>	<u>16,348</u>
Income (loss) before minority interests	109	3,598	1,335	43,788
Minority interests	(12)	(1)	(148)	(15)
Net income (loss)	<u>¥ 97</u>	<u>¥ 3,597</u>	<u>\$ 1,187</u>	<u>\$ 43,772</u>

	Yen		U.S. dollars	
Net income (loss) per share:				
Cash dividends per share	-	¥ 2.5	-	\$ 0.03
Basic	¥ 0.97	¥ 35.79	\$ 0.01	\$ 0.43
Diluted	-	-	-	-

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars	
	2012	2011	2012	2011
Income (loss) before minority interests	109	3,598	1,335	43,788
Other comprehensive income:				
Net unrealized holding gain (loss) on other securities	36	(82)	442	(1,009)
Foreign currency translation adjustments	(4)	(100)	(54)	(1,216)
Total other comprehensive income	31	(183)	387	(2,226)
Comprehensive income	¥ 141	¥ 3,415	\$ 1,723	\$ 41,561
Comprehensive income attributable to:				
Owners of the parent	129	3,414	1,575	41,546
Minority interests	12	1	148	15

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED BALANCE SHEETS
March 31, 2012 and 2011

<u>ASSETS</u>	Millions of yen		Thousands of U.S. dollars	
	2012	2011	2012	2011
Current assets:				
Cash	¥ 8,604	¥ 9,790	\$ 104,689	\$ 119,122
Notes and accounts receivable - trade:				
Unconsolidated subsidiaries and affiliated companies	170	133	2,078	1,621
Other	6,187	5,912	75,284	71,931
Short-term investment securities	1,998	998	24,316	12,152
Inventories	3,535	3,366	43,012	40,960
Deferred tax assets	35	34	427	416
Other current assets	266	688	3,241	8,371
Allowance for doubtful accounts	(69)	(92)	(841)	(1,124)
Total current assets	20,729	20,831	252,208	253,450
Property, plant and equipment, at cost				
Land	985	982	11,989	11,959
Buildings and structures	10,665	10,549	129,770	128,350
Machinery and equipment	12,005	12,272	146,067	149,314
Lease assets	89	82	1,089	1,000
Construction in progress	32	18	396	223
	23,776	23,903	289,311	290,846
Accumulated depreciation	(20,087)	(19,948)	(244,399)	(242,708)
Accumulated impairment loss	(74)	(88)	(904)	(1,080)
	3,617	3,867	44,008	47,059
Intangible assets	1,014	1,124	12,341	13,684
Investments and other assets:				
Investment securities	1,029	978	12,521	11,902
Investments in unconsolidated subsidiaries and affiliated companies	26	446	327	5,437
Long-term loans receivable:				
Other	96	140	1,173	1,703
Long-term prepaid expenses	7	12	86	151
Deferred tax assets	49	49	597	605
Other assets	436	567	5,313	6,902
Allowance for doubtful accounts	(194)	(177)	(2,360)	(2,154)
	1,451	2,017	17,658	24,548
	¥ 26,811	¥ 27,841	\$ 326,217	\$ 338,743

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED BALANCE SHEETS
March 31, 2012 and 2011

<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>	Millions of yen		Thousands of U.S. dollars	
	2012	2011	2012	2011
Current liabilities:				
Short-term loans payable	¥ 40	¥ 40	\$ 486	\$ 486
Long-term debt due within one year	16	120	201	1,464
Notes and accounts payable - trade:				
Unconsolidated subsidiaries and affiliated companies	50	39	611	476
Other	1,682	1,801	20,467	21,924
Accounts payable - other	705	961	8,586	11,697
Accrued liabilities	1,429	1,321	17,391	16,082
Income taxes payable	84	137	1,031	1,671
Other current liabilities	306	406	3,730	4,941
Total current liabilities	4,315	4,828	52,506	58,746
Long-term debt due after one year	68	84	827	1,029
Severance and retirement benefits for employees	3,132	3,180	38,108	38,691
Deferred tax liabilities	1,194	1,289	14,531	15,684
Other liabilities	767	897	9,337	10,915
Minority interests	138	126	1,679	1,538
Stockholders' equity:				
Common stock				
Authorized - 300,000,000 shares				
Issued - 100,803,447 shares	6,025	6,025	73,311	73,311
Capital surplus	6,942	6,942	84,463	84,463
Retained earnings	4,651	5,199	56,598	63,267
Net unrealized holding gains on securities	1	(34)	21	(420)
Foreign currency translation adjustments	(375)	(648)	(4,573)	(7,894)
	17,244	17,484	209,820	212,727
Less treasury stock of 295,483 shares (296,035 shares in 2011), at cost	(49)	(48)	(596)	(591)
Total stockholders' equity	17,195	17,436	209,224	212,136
	¥ 26,811	¥ 27,841	\$ 326,217	\$ 338,743

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended March 31, 2012 and 2011

	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, 2010	100,803,447	¥ 6,025	¥ 6,942	¥ 1,602	¥ 48	¥ (547)	¥ (48)
Net income (loss)	-	-	-	3,597	-	-	-
Adjustments from translation of foreign currency financial statements	-	-	-	-	-	(100)	-
Increase of net unrealized holding gains on securities	-	-	-	-	(83)	-	-
Treasury stock	-	-	-	-	-	-	(0)
Balance at March 31, 2011	<u>100,803,447</u>	<u>¥ 6,025</u>	<u>¥ 6,942</u>	<u>¥ 5,199</u>	<u>¥ (34)</u>	<u>¥ (648)</u>	<u>¥ (48)</u>
Dividens from surplus	-	-	-	(251)	-	-	-
Net income (loss)	-	-	-	97	-	-	-
Change of scope of consolidation	-	-	-	(277)	-	-	-
Change of scope of equity method	-	-	-	(116)	-	-	-
Adjustments from translation of foreign currency financial statements	-	-	-	-	-	272	-
Increase of net unrealized holding gains on securities	-	-	-	-	36	-	-
Treasury stock	-	-	-	-	-	-	(1)
Balance at March 31, 2012	<u>100,803,447</u>	<u>¥ 6,025</u>	<u>¥ 6,942</u>	<u>¥ 4,651</u>	<u>¥ 1</u>	<u>¥ (375)</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, 2010	\$ 73,311	\$ 84,463	\$ 19,495	\$ 579	\$ (6,666)	\$ (585)
Net income (loss)	-	-	43,772	-	-	-
Adjustments from translation of foreign currency financial statements	-	-	-	-	(1,228)	-
Decrease of net unrealized holding gains on securities	-	-	-	(999)	-	-
Treasury stock	-	-	-	-	-	(5)
Balance at March 31, 2011	<u>\$ 73,311</u>	<u>\$ 84,463</u>	<u>\$ 63,267</u>	<u>\$ (420)</u>	<u>\$ (7,894)</u>	<u>\$ (591)</u>
Dividens from surplus	-	-	(3,055)	-	-	-
Net income (loss)	-	-	1,187	-	-	-
Change of scope of consolidation	-	-	(3,384)	-	-	-
Change of scope of equity method	-	-	(1,417)	-	-	-
Adjustments from translation of foreign currency financial statements	-	-	-	-	3,321	-
Decrease of net unrealized holding gains on securities	-	-	-	441	-	-
Treasury stock	-	-	-	-	-	(5)
Balance at March 31, 2012	<u>\$ 73,311</u>	<u>\$ 84,463</u>	<u>\$ 56,598</u>	<u>\$ 21</u>	<u>\$ (4,573)</u>	<u>\$ (596)</u>

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2012 and 2011

	Millions of yen		dollars	
	2012	2011	2012	2011
Cash flows from operating activities:				
Income (loss) before income taxes and minority interests	¥ 119	¥ 4,942	\$ 1,450	\$ 60,136
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation	1,105	1,585	13,450	19,285
Amortization of goodwill	69	47	842	580
Non-recurring depreciation on noncurrent assets	-	586	-	7,136
Increase (Decrease) in allowance for doubtful accounts	(6)	(29)	(77)	(357)
Increase (Decrease) in severance and retirement benefits	(47)	124	(577)	1,519
Interest and dividend income	(45)	(30)	(556)	(365)
Interest expense	8	12	106	151
Equity in earnings (losses) of affiliates	(41)	(10)	(499)	(126)
Loss (Gain) on sale of investment securities and investments in affiliated companies, net	99	0	1,213	0
Gain on sale of property, plant and equipment	0	(5,297)	(11)	(64,455)
Loss on sale and disposal of property, plant and equipment	6	369	78	4,501
Compensation for removal	-	(2,154)	-	(26,212)
Loss on liquidation of subsidiaries and affiliates	-	801	-	9,746
Changes in operating assets and liabilities - net:				
Decrease (Increase) in notes and accounts receivable - trade	(315)	887	(3,840)	10,795
Decrease in inventories	(169)	(347)	(2,059)	(4,233)
Decrease in notes and accounts payable - trade	(107)	(224)	(1,307)	(2,734)
Increase (Decrease) in accrued expenses	(464)	(171)	(5,648)	(2,090)
Other - net	353	233	4,305	2,838
Subtotal	564	1,324	6,868	16,114
Interest and dividend received	44	29	539	354
Interest paid	(8)	(12)	(106)	(151)
Income taxes paid	(123)	(104)	(1,500)	(1,270)
Proceeds from compensation for removal	430	-	5,242	-
Payments for loss on disaster	(217)	-	(2,652)	-
Net cash provided by operating activities	689	1,236	8,392	15,047
Cash flows from investing activities:				
Decrease (Increase) in time deposits	(965)	4	(11,747)	55
Payment for purchase of short-term investment securities	(3,999)	(998)	(48,662)	(12,148)
Proceeds from sale of short-term investment securities	2,999	1,000	36,498	12,166
Proceeds from sale of stocks of subsidiaries and affiliates	210	-	2,556	-
Proceeds from sale of properties	6	1	82	14
Payment for purchase of properties, intangible assets and long-term prepaid expenses	(876)	(1,135)	(10,661)	(13,811)
Proceeds from liquidation of investment securities	1	1	12	12
Other - net	87	38	1,069	462
Net cash used in investing activities	(2,535)	(1,088)	(30,854)	(13,248)
Cash flows from financing activities:				
Repayments of long-term debt	(120)	(227)	(1,464)	(2,761)
Dividends paid	(247)	-	(3,003)	-
Other - net	(28)	(36)	(335)	(445)
Net cash used in financing activities	(394)	(263)	(4,803)	(3,207)
Effect of exchange rate changes on cash and cash equivalents	(1)	(35)	(18)	(430)
Net increase in cash and cash equivalents	(2,242)	(151)	(27,284)	(1,840)
Cash and cash equivalents at beginning of year	9,607	9,758	116,891	118,731
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	(23)	-	(288)	-
Cash and cash equivalents at end of year	¥ 7,341	¥ 9,607	\$ 89,319	\$ 116,891

IWATSU ELECTRIC CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012 AND 2011

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, 2012 and 2011 was as follows:

	Millions of yen						
	Telecommunications equipment	ITNS equipment	Electric measuring equipment	Reprographic equipment	Others	Reconciliations	Consolidated
For the year ended March 31, 2012:							
Net sales:							
Outside customers	¥ 14,590	¥ 2,813	¥ 2,280	¥ 4,278	¥ 1,461	¥ -	¥ 25,425
Inter-segment total	-	-	-	-	-	-	-
	<u>14,590</u>	<u>2,813</u>	<u>2,280</u>	<u>4,278</u>	<u>1,461</u>	<u>-</u>	<u>25,425</u>
Operating income (loss)	<u>¥ 988</u>	<u>¥ 304</u>	<u>¥ 13</u>	<u>¥ 410</u>	<u>¥ (374)</u>	<u>¥ (1,331)</u>	<u>¥ 12</u>
Identifiable assets	¥ 9,682	¥ 1,205	¥ 1,396	¥ 3,160	¥ 695	¥ 10,670	¥ 26,811
Depreciation	(628)	(59)	(72)	(142)	(32)	(170)	(1,105)
For the year ended March 31, 2011:							
Net sales:							
Outside customers	¥ 14,051	¥ 2,764	¥ 3,477	¥ 4,877	¥ 1,685	¥ -	¥ 26,856
Inter-segment total	-	-	-	-	-	-	-
	<u>14,051</u>	<u>2,764</u>	<u>3,477</u>	<u>4,877</u>	<u>1,685</u>	<u>-</u>	<u>26,856</u>
Operating income (loss)	<u>¥ 178</u>	<u>¥ 216</u>	<u>¥ 101</u>	<u>¥ 725</u>	<u>¥ (331)</u>	<u>¥ (1,222)</u>	<u>¥ (331)</u>
Identifiable assets	¥ 10,717	¥ 895	¥ 1,624	¥ 3,156	¥ 810	¥ 10,636	¥ 27,841
Depreciation	(1,074)	(55)	(95)	(144)	(26)	(188)	(1,585)

IWATSU ELECTRIC CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012 AND 2011

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, 2012:							
Net sales:							
Outside customers	\$ 177,516	\$ 34,226	\$ 27,741	\$ 52,050	\$ 17,776	\$ -	\$ 309,346
Inter-segment	-	-	-	-	-	-	-
total	<u>177,516</u>	<u>34,226</u>	<u>27,741</u>	<u>52,050</u>	<u>17,776</u>	<u>-</u>	<u>309,346</u>
Operating income (loss)	<u>\$ 12,021</u>	<u>\$ 3,699</u>	<u>\$ 158</u>	<u>\$ 4,988</u>	<u>\$ (4,550)</u>	<u>\$ (16,194)</u>	<u>\$ 148</u>
Identifiable assets	\$ 117,800	\$ 14,661	\$ 16,985	\$ 38,447	\$ 8,456	\$ 129,821	\$ 326,208
Depreciation	(7,641)	(718)	(876)	(1,728)	(389)	(2,068)	(13,450)
For the year ended March 31, 2011:							
Net sales:							
Outside customers	\$ 170,958	\$ 33,629	\$ 42,304	\$ 59,338	\$ 20,501	\$ -	\$ 326,763
Inter-segment	-	-	-	-	-	-	-
total	<u>170,958</u>	<u>33,629</u>	<u>42,304</u>	<u>59,338</u>	<u>20,501</u>	<u>-</u>	<u>326,763</u>
Operating income (loss)	<u>\$ 2,166</u>	<u>\$ 2,628</u>	<u>\$ 1,229</u>	<u>\$ 8,821</u>	<u>\$ (4,027)</u>	<u>\$ (14,868)</u>	<u>\$ (4,034)</u>
Identifiable assets	\$ 130,393	\$ 10,889	\$ 19,759	\$ 38,399	\$ 9,855	\$ 129,407	\$ 338,740
Depreciation	(13,067)	(669)	(1,156)	(1,752)	(316)	(2,287)	(19,285)

*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.