2006 ANNUAL REPORT

For the year ended March 31, 2006

IWATSU ELECTRIC CO., LTD.

OVERVIEW OF FISCAL 2006

During fiscal 2006, ended March 31, 2006, the Japanese economy continued to show signs of a recovering trend. This was propelled by increased capital investment brought about by improvements in corporate earnings and favorable employment conditions, despite concerns over such factors as rising crude oil and raw material prices.

It was amid such a business environment that the Iwatsu Electric Group marked the intermediate year of Iwatsu 530.3C, its medium-term management plan. The Group has been promoting the measures called for in the plan, including realizing growth through reform of business structures, shifting to a high-earnings profit structure through reform of its earnings structure, strengthening corporate structure, and boosting morale. In line with these measures, the Group has made every effort to maximize its value and streamline its management structure.

During the fiscal year under review, Iwatsu Electric strived to reorganize its operational structure by realigning sales promotion and development systems in the IT Sales Division. Simultaneously, as a means of reforming its management structure, the Company introduced an executive officer system for prompt decision-making in response to changes in the management environment and made the Board of Directors' meeting more efficient. Furthermore, the Company implemented scrap-and-build measures among its affiliated companies, reducing the number of consolidated subsidiaries from eleven to nine.

On the business front, Iwatsu Electric focused on expansion of sales of IP-capable products, including TELMAGE, a medium-sized key telephone system for business use, and TELEMORE-EX, a small-sized key telephone system with a security function for business use. In addition, the Company aggressively invested in new product development for both the home and overseas markets, concentrating its efforts on the enhancement of its business solutions enterprise.

Despite these endeavors, consolidated net sales were ¥39.5 billion, an 8.6% drop when compared with the ¥43.3 billion recorded in the previous fiscal year. This is attributed to the weak performance of the IT division, which was affected by stagnant demands for IP networks, and the stock transfer of Intec Measuring Co., Ltd., a consolidated subsidiary that was responsible for sales of industrial measuring equipment. On the earnings front, some consolidated subsidiaries improved their performance compared with the previous fiscal year. However, Iwatsu Electric's non-consolidated performance was adversely affected by declining sales and the increased development expenses required for new products. As a result, the Company recorded an operating loss of ¥1 million compared with an operating profit of ¥902 million in the previous fiscal year. Moreover, during the fiscal year under review, an extraordinary loss of approximately ¥60 million was recorded, including loss on sales and disposal of property, plant and equipment and other related expenses in line with the renewal of a contract covering the business alliance between Iwatsu Test Instruments Corporation and a U.S. company, LeCroy Corporation. As a result, the Company made a ¥347 million loss, while it had recorded a profit of ¥597 million in the previous fiscal year.

In light of these circumstances, the Iwatsu Electric Group will continue to advance its medium-term management plan in fiscal 2007. The Iwatsu Electric Group requests the continued support and understanding of its stockholders.

Performance Targets

	¥ millions (US$ thousands)
	Fiscal 2007 Plan
Net sales	**42,200 (359,241)**
Operating income	**800 (6,810)**
Net income	**400 (3,405)**

Action Guidelines
Commitment: Every employee must be resolved.
Cooperation: The whole Group must pull together.
Change: Embrace the need for change.

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CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2006	2005	**2006**	2005
Net sales (Note 12)	**¥39,567**	¥43,300	**$336,826**	$368,605
Costs and expenses (Note 12):				
Cost of sales (Note 13)	**25,413**	28,847	**216,336**	245,569
Selling, general and administrative expenses (Notes 7 and 13)	**14,156**	13,550	**120,507**	115,349
	39,569	42,397	**336,843**	360,918
Operating income (loss) (Note 12)	**(2)**	903	**(17)**	7,687
Other income (expenses):				
Interest and dividend income	**45**	30	**383**	255
Interest expense	**(38)**	(49)	**(323)**	(417)
Gain on sale of investment securities and investments in affiliated companies, net	**175**	184	**1,490**	1,566
Loss on write-down of investment securities and investments in affiliated companies	**—**	(9)	**—**	(77)
Loss on disposal of inventories	**(4)**	(413)	**(34)**	(3,516)
Exchange gains	**195**	44	**1,660**	375
Gain on sale of property, plant and equipment	**5**	6	**43**	51
Loss on sale and disposal of property, plant and equipment	**(48)**	(92)	**(409)**	(783)
Special severance and retirement benefits	**(17)**	(45)	**(145)**	(383)
Loss from operations of test instruments(Note 15)	**(599)**	—	**(5,099)**	—
Other—net	**80**	22	**680**	188
	(206)	(322)	**(1,754)**	(2,741)
Income (loss) before income taxes and minority interests	**(208)**	581	**(1,771)**	4,946
Income taxes (Note 8)**:**				
Current	**189**	176	**1,609**	1,498
Deferred	**(49)**	(196)	**(418)**	(1,668)
	140	(20)	**1,191**	(170)
Income (loss) before minority interests	**(348)**	601	**(2,962)**	5,116
Minority interests	**—**	(3)	**—**	(25)
Net income (loss)	**¥ (348)**	¥ 598	**$ (2,962)**	$ 5,091

	Yen		U.S. dollars (Note 1)	
Net income (loss) per share:				
Basic	**¥ (3.68)**	¥ 5.28	**$ (0.03)**	$ 0.04
Diluted	**—**	—	**—**	—

See accompanying notes.

CONSOLIDATED BALANCE SHEETS

March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)	
ASSETS	**2006**	2005	**2006**	2005
Current assets:				
Cash	**¥ 4,698**	¥ 6,123	**$ 39,993**	$ 52,124
Notes and accounts receivable—trade:				
Unconsolidated subsidiaries and affiliated companies	**475**	480	**4,044**	4,086
Other	**10,156**	11,135	**86,456**	94,790
Inventories (Note 3)	**6,147**	6,577	**52,328**	55,989
Deferred tax assets (Note 8)	**660**	568	**5,618**	4,835
Other current assets	**466**	256	**3,967**	2,180
Allowance for doubtful accounts	**(22)**	(70)	**(187)**	(596)
Total current assets	**22,580**	25,069	**192,219**	213,408
Property, plant and equipment, at cost (Note 6)**:**				
Land	**1,003**	1,004	**8,538**	8,547
Buildings and structures	**11,178**	11,057	**95,156**	94,126
Machinery and equipment	**17,792**	17,792	**151,460**	151,460
Construction in progress	**63**	—	**536**	—
	30,036	29,853	**255,690**	254,133
Accumulated depreciation	**(24,065)**	(23,876)	**(204,860)**	(203,252)
	5,971	5,977	**50,830**	50,881
Intangible assets	**2,410**	2,309	**20,516**	19,656
Investments and other assets:				
Investment securities (Notes 4 and 6)	**2,658**	2,038	**22,627**	17,349
Investments in unconsolidated subsidiaries and affiliated companies (Note 4)	**220**	220	**1,873**	1,873
Long-term loans receivable:				
Unconsolidated subsidiaries and affiliated companies	**30**	9	**255**	77
Other	**39**	49	**332**	417
Long-term prepaid expenses	**23**	37	**196**	315
Deferred tax assets (Note 8)	**50**	90	**426**	766
Other assets	**1,317**	1,136	**11,211**	9,670
Allowance for doubtful accounts	**(353)**	(218)	**(3,005)**	(1,856)
	3,984	3,361	**33,915**	28,611
	¥ 34,945	¥ 36,716	**$ 297,480**	$ 312,556

See accompanying notes.

LIABILITIES AND STOCKHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2006	2005	**2006**	2005
Current liabilities:				
Short-term loans payable (Notes 5 and 6)	**¥ 36**	¥ 43	**$ 306**	$ 366
Long-term debt due within one year (Notes 5 and 6)	**662**	1,912	**5,635**	16,276
Notes and accounts payable—trade:				
Unconsolidated subsidiaries and affiliated companies	**77**	47	**655**	400
Other	**3,887**	4,303	**33,089**	36,631
Accounts payable—other	**160**	43	**1,362**	366
Accrued liabilities	**2,507**	2,567	**21,342**	21,852
Income taxes payable (Note 8)	**145**	238	**1,234**	2,026
Other current liabilities	**746**	690	**6,352**	5,875
Total current liabilities	**8,220**	9,843	**69,975**	83,792
Long-term debt due after one year (Notes 5 and 6)	**752**	1,415	**6,402**	12,046
Severance and retirement benefits for employees (Note 7)	**5,901**	5,417	**50,234**	46,114
Deferred tax liabilities (Note 8)	**759**	476	**6,461**	4,052
Other liabilities	**158**	267	**1,345**	2,272
Contingent liabilities (Note 9)				
Minority interests	**—**	16	**—**	136
Stockholders' equity (Note 11)**:**				
Common stock				
Authorized —300,000,000 shares				
Issued—100,803,447 shares	**6,025**	6,025	**51,290**	51,290
Capital surplus	**6,942**	6,942	**59,096**	59,096
Retained earnings	**5,626**	6,295	**47,893**	53,588
Net unrealized holding gains on securities	**974**	556	**8,291**	4,733
Foreign currency translation adjustments	**(378)**	(510)	**(3,218)**	(4,342)
	19,189	19,308	**163,352**	164,365
Less treasury stock of 180,980 shares (152,944 shares in 2005), at cost	**(34)**	(26)	**(289)**	(221)
Total stockholders' equity	**19,155**	19,282	**163,063**	164,144
	¥ 34,945	¥ 36,716	**$ 297,480**	$ 312,556

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended March 31, 2006 and 2005

	Number of Shares of common stock	Common stock (Millions of yen)	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustmets	Treasury stock
Balance at March 31, 2004	100,803,447	¥ 6,025	¥ 6,942	¥ 5,496	¥ 730	¥(534)	¥(17)
Net income (loss)	—	—	—	598	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	24	—
Decrease of net unrealized holding gains on securities	—	—	—	—	(174)	—	—
Treasury stock	—	—	—	—	—	—	(9)
Increase due to newly consolidated subsidiaries	—	—	—	217	—	—	—
Bonuses to directors	—	—	—	(16)	—	—	—
Balance at March 31, 2005	100,803,447	¥ 6,025	¥ 6,942	¥ 6,295	¥ 556	¥(510)	¥(26)
Net income (loss)	—	—	—	(348)	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	132	—
Increase of net unrealized holding gains on securities	—	—	—	—	418	—	—
Treasury stock	—	—	—	—	—	—	(8)
Decrease due to change in scope of consolidated subsidiaries	—	—	—	(3)	—	—	—
Cash dividends	—	—	—	(252)	—	—	—
Bonuses to directors	—	—	—	(66)	—	—	—
Balance at March 31, 2006	**100,803,447**	**¥6,025**	**¥6,942**	**¥ 5,626**	**¥ 974**	**¥(378)**	**¥(34)**

	Common stock (Thousands of U.S. dollars (Note 1))	Capital Surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustmets	Treasury stock
Balance at March 31, 2004	$ 51,290	$ 59,096	$ 46,786	$ 6,214	$ (4,546)	$ (144)
Net income (loss)	—	—	5,091	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	204	—
Decrease of net unrealized holding gains on securities	—	—	—	(1,481)	—	—
Treasury stock	—	—	—	—	—	(77)
Increase due to newly consolidated subsidiaries	—	—	1,847	—	—	—
Bonuses to directors	—	—	(136)	—	—	—
Balance at March 31, 2005	$ 51,290	$ 59,096	$ 53,588	$ 4,733	$ (4,342)	$ (221)
Net income (loss)	—	—	(2,962)	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	1,124	—
Increase of net unrealized holding gains on securities	—	—	—	3,558	—	—
Treasury stock	—	—	—	—	—	(68)
Decrease due to change in scope of consolidated subsidiaries	—	—	(26)	—	—	—
Cash dividends	—	—	(2,145)	—	—	—
Bonuses to directors	—	—	(562)	—	—	—
Balance at March 31, 2006	**$51,290**	**$59,096**	**$47,893**	**$8,291**	**$(3,218)**	**$(289)**

See accompanying notes.

IWATSU ELECTRIC CO., LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars(Note 1)	
	2006	2005	**2006**	2005
Cash flows from operating activities:				
Income (loss) before income taxes and minority interests	**¥ (208)**	¥ 581	**$ (1,771)**	$ 4,946
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation	**1,930**	1,861	**16,430**	15,842
Increase in allowance for doubtful accounts	**85**	67	**724**	570
Increase in severance and retirement benefits	**483**	187	**4,112**	1,592
Interest and dividend income	**(45)**	(30)	**(383)**	(255)
Interest expense	**38**	49	**323**	417
Loss on write-down of investment securities and investments in affiliated companies	**—**	9	**—**	77
Gain on sale of investment securities and investments in affiliated companies, net	**(175)**	(184)	**(1,490)**	(1,566)
Loss from operations of test instruments (Note 15)	**479**	—	**4,078**	—
Gain on sale of property, plant and equipment	**(5)**	(6)	**(43)**	(51)
Loss on sale and disposal of property, plant and equipment	**48**	92	**409**	783
Changes in operating assets and liabilities—net:				
Decrease (Increase) in notes and accounts receivable—trade	**736**	(130)	**6,265**	(1,107)
Decrease in inventories	**449**	381	**3,822**	3,243
Decrease in notes and accounts payable—trade	**(233)**	(808)	**(1,983)**	(6,878)
Increase (Decrease) in accrued expenses	**218**	(26)	**1,856**	(221)
Other—net	**(519)**	274	**(4,418)**	2,332
Subtotal	**3,281**	2,317	**27,931**	19,724
Interest and dividend received	**45**	30	**383**	255
Interest paid	**(38)**	(49)	**(323)**	(417)
Income taxes paid	**(239)**	(128)	**(2,035)**	(1,089)
Net cash provided by operating activities	**3,049**	2,170	**25,956**	18,473
Cash flows from investing activities:				
Decrease (Increase) in time deposits	**11**	(115)	**94**	(979)
Proceeds from sale of investment securities	**459**	332	**3,907**	2,826
Payment for purchase of investment securities	**(226)**	(147)	**(1,924)**	(1,251)
Proceeds from sale of properties	**38**	66	**323**	562
Payment for purchase of properties , intangible assets and long-term prepaid expenses	**(2,472)**	(2,254)	**(21,044)**	(19,188)
Proceeds from redemption of investments in trusts	**16**	8	**136**	68
Decrease in cash and cash equivalents resulting from sale of investsments in a consolidated subsidiary	**(107)**	—	**(911)**	—
Other—net	**(44)**	(17)	**(373)**	(145)
Net cash used in investing activities	**(2,325)**	(2,127)	**(19,792)**	(18,107)
Cash flows from financing activities:				
Decrease in short-term bank loans	**(7)**	(2,371)	**(60)**	(20,184)
Proceeds from long-term debt	**—**	1,270	**—**	10,811
Repayments of long-term debt	**(1,912)**	(620)	**(16,276)**	(5,278)
Dividends paid	**(248)**	0	**(2,111)**	0
Other—net	**(8)**	(10)	**(68)**	(85)
Net cash used in financing activities	**(2,175)**	(1,731)	**(18,515)**	(14,736)
Effect of exchange rate changes on cash and cash equivalents	**38**	12	**323**	102
Net increase in cash and cash equivalents	**(1,413)**	(1,676)	**(12,028)**	(14,268)
Cash and cash equivalents at beginning of year	**6,059**	7,667	**51,579**	65,268
Increase in cash and cash equivalents resulting from newly consolidated subsidiaries	**—**	68	**—**	579
Cash and cash equivalents at end of year (Note 2 (2))	**¥ 4,646**	¥ 6,059	**$ 39,551**	$ 51,579

See accompanying notes.

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan (''Japanese GAAP''), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been reclassified and translated into English (with some expanded descriptions and the inclusion of consolidated statements of stockholders' equity) from the consolidated financial statements of IWATSU ELECTRIC CO.,LTD. (the ''Company'') prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2006, which was ¥117.47 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

(1) Principles of consolidation—The consolidated financial statements include the accounts of the Company and its significant subsidiaries (9 subsidiaries in 2006 and 11 subsidiaries in 2005). All significant intercompany transactions and accounts have been eliminated.

All companies are required to consolidate all significant investees which are controlled through substantial ownership of majority voting rights or existence of certain conditions. The Company and its consolidated subsidiaries (the ''Companies'') are required to account for investments in non-consolidated subsidiaries and affiliates over which they have the ability to exercise significant influence over operating and financial policies of the investees, on the equity method. However, investments in unconsolidated subsidiaries and other affiliated companies are stated at cost because the income or losses of the companies are not significant for the Company's equity.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority stockholders, are recorded based on the fair value at the time the Company acquired control of the respective subsidiaries in accordance with the accounting standard for consolidation.

(2) Cash and cash equivalents—In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

The following table reconciles the difference between the cash stated on the consolidated balance sheets as of March 31, 2006 and 2005, and cash and cash equivalents at end of the year stated on the consolidated statements of cash flows for the years then ended.

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	**2006**	2005
Cash	**¥4,698**	¥6,123	**$39,993**	$52,124
Time deposits included in cash	**(52)**	(64)	**(442)**	(545)
Cash and cash equivalents	**¥4,646**	¥6,059	**$39,551**	$51,579

(3) Foreign currency translation—All assets and liabilities denominated in foreign currencies are translated into Japanese yen at the year-end rates.

All revenues and expenses associated with foreign currencies are translated into Japanese yen at the exchange rates prevailing when such transactions are made.

The Company and its domestic subsidiaries report foreign currency translation adjustments in the stockholders' equity.

The Company translates the financial statements of overseas subsidiaries into Japanese yen, using year-end rates for assets and liabilities, historical rates for stockholders' equity, and average rates of the year for income and expenses in accordance with the Accounting Standards for Foreign Currency Transactions.

(4) Securities—By the intent of holding, each security is classified as (a) securities held for trading purposes (''trading securities''), (b) debt securities intended to be held to maturity (''held-to-maturity debt securities''), (c) equity securities issued by subsidiaries and affiliated companies, and (d) for all other securities that are not classified in any of the above categories (''available-for-sale securities'').

The Companies had no trading securities or held-to-maturity debt securities. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving-average cost.

Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of stockholders' equity. Realized gains and losses on sale of such securities are computed using moving-average cost. Available-for-sale securities with no available fair market value are stated at moving-average cost.

If the market value of equity securities issued by unconsolidated subsidiaries and affiliated companies, and available-for-sale securities, declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method is not readily available, such securities should be written down to net asset value with a corresponding charge in the income statement in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

(5) Allowance for doubtful accounts—Allowance for doubtful accounts is provided in amounts sufficient to cover probable losses on collection.

Allowance for doubtful accounts consists of the estimated uncollectible amount with respect to specific items, and the amount calculated using the actual percentage of collection losses in the past with respect to other items.

(6) Inventories—Inventories are stated at cost which is principally determined by the moving-average cost method.

(7) Property, plant and equipment and depreciation—Property, plant and equipment are carried at cost. Depreciation is computed primarily using the declining-balance method at rates based on the estimated useful lives of assets except that buildings acquired after March 31, 1998 are depreciated using the straight-line method.

The ranges of useful lives used in the computation of depreciation are generally as follows:

Buildings and structures	3 to 50 years
Machinery and equipment	2 to 20 years

(8) Accounting for certain lease transactions—Finance leases which do not transfer ownership to lessees are accounted for in the same manners as operating leases under accounting principles generally accepted in Japan.

(9) Software costs—Software included in intangible assets is amortized using the straight-line method over the estimated useful lives (3 to 5 years).

(10) Research and development—Research and development costs for new products are charged to income when incurred.

(11) Severance and retirement benefits—The Company and some of its consolidated domestic subsidiaries have unfunded lump-sum payment plans and funded pension plans covering all employees. Under the terms of the plan, eligible employees are entitled at the mandatory retirement age or earlier voluntary retirement, to severance payments based on the length of service and base salary at the time of retirement.

The liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000, when this accounting standard was adopted, and the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the ''net transition obligation'') amounted to ¥4,261 million, of which ¥823 million was recognized as an expense as a result of the contribution of investment securities worth ¥823 million to the employee retirement benefit trust in September 2000. The remaining net transition obligation amounting ¥3,438 million is recognized in expenses in equal amounts primarily over 10 years commencing with the year ended March 31, 2001.

Prior service costs are recognized in expenses in equal amounts over the periods (13 years) within the average of the estimated remaining service lives of the employees.

Actuarial gains and losses are recognized in expenses using the straight-line method over the periods (13 years) within the average of the estimated remaining service lives commencing with the succeeding period.

(12) Derivatives and hedge accounting—Companies are required to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

(13) Net income(loss) per share—The computation of net income(loss) per share is based on the weighted average number of shares of common stock outstanding during each year.

Diluted net income per share is not presented, since there were no outstanding securities with dilutive effects, such as bonds with warrants and convertible bonds.

(14) Income Taxes—Income taxes consist of corporation, enterprise and inhabitants taxes. The provision for income taxes is computed based on the pretax income of the Company and each of its consolidated subsidiaries with certain adjustments required for consolidation and tax purposes. The asset and liability approach is used to recognize deferred tax assets and liabilities for loss carryforwards and the expected future tax consequences of temporary differences between the carrying amounts and the tax base of assets and liabilities. Valuation allowances are recorded to reduce deferred tax assets based on the assessment of the realizability of the tax benefits.

With the promulgation of the ''Revision of the Local Tax Law'' (Legislation No.9, 2003) on March 31, 2003, the tax bases for assessing enterprise taxes comprise ''amount of income'', ''amount of added value'' and ''amount of capital'' commencing April 1, 2004.

Enterprise taxes based on ''amount of added value'' and ''amount of capital'' are included in ''Selling, general and administrative expenses'' commencing this fiscal year pursuant to ''Practical Solutions on Presentation for Size-Based Components of Corporate Enterprise Tax on the Income Statement'' (Accounting Standards Board, Practical Solution Report No.12 issued on February 13, 2004).

As a result of this change, in the year ended March 31, 2005, selling, general and administrative expenses increased by ¥70million (U.S.$652 thousand), and operating income and income before income tax each decreased by the same amount.

(15) Accounting standard for impairment of fixed assets—Effective April 1, 2005, The Company and it's consoridated domestic subsidiaries adopted ''Accounting standard for impairment of fixed assets'' (''Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets'' issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). The adoption of this new accounting standard did not have impact on the Company's consolidated financial statements.

(16) Reclassifications—Certain prior year amounts have been reclassified to conform to the 2006 presentation. These changes had no impact on previously reported results of operations or stockholders' equity.

3. Inventories

Inventories at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	**2006**	2005
Finished products	**¥2,323**	¥2,523	**$19,775**	$21,478
Work in process	**1,297**	1,335	**11,041**	11,365
Raw materials and supplies	**2,527**	2,719	**21,512**	23,146
	¥6,147	¥6,577	**$52,328**	$55,989

4. Securities

Acquisition costs, book value, fair value and the related unrealized gain of securities as of March 31, 2006 and 2005 were as follows:

	Millions of yen		
2006	Acquisition cost	Book value	Difference
Available-for-sale securities with fair market value exceeding acquisition costs			
Equity securities	**¥839**	**¥2,493**	**¥1,654**
Other than equity securities and bonds	**—**	**—**	**—**
Subtotal	**¥839**	**¥2,493**	**¥1,654**
Available-for-sale securities with fair market value not exceeding acquisition costs			
Equity securities	**¥ —**	**¥ —**	**¥ —**
Other than equity securities and bonds	**—**	**—**	**—**
Subtotal	**¥ —**	**¥ —**	**¥ —**
Total	**¥839**	**¥2,493**	**¥1,654**

2006	Thousands of U.S. dollars Acquisition cost	Book value	Difference
Available-for-sale securities with fair market value exceeding acquisition costs			
Equity securities	**$7,142**	**$21,222**	**$14,080**
Other than equity securities and bonds	—	—	—
Subtotal	**$7,142**	**$21,222**	**$14,080**
Available-for-sale securities with fair market value not exceeding acquisition costs			
Equity securities	**$**	**$ —**	**$ —**
Other than equity securities and bonds	**—**	**—**	**—**
Subtotal	**$ —**	**$ —**	**$ —**
Total	**$7,142**	**$21,222**	**$14,080**

2005	Millions of yen Acquisition cost	Book value	Difference
Available-for-sale securities with fair market value exceeding acquisition costs			
Equity securities	¥665	¥1,631	¥966
Other than equity securities and bonds	98	100	2
Subtotal	¥763	¥1,731	¥968
Available-for-sale securities with fair market value not exceeding acquisition costs			
Equity securities	¥ —	¥ —	¥ —
Other than equity securities and bonds	157	142	(15)
Subtotal	¥157	¥ 142	¥ (15)
Total	¥920	¥1,873	¥953

2005	Thousands of U.S. dollars Acquisition cost	Book value	Difference
Available-for-sale securities with fair market value exceeding acquisition costs			
Equity securities	$ 5,661	$ 13,884	$ 8,223
Other than equity securities and bonds	834	852	18
Subtotal	$ 6,495	$ 14,736	$ 8,241
Available-for-sale securities with fair market value not exceeding acquisition costs			
Equity securities	$ —	$ —	$ —
Other than equity securities and bonds	1,337	1,209	(128)
Subtotal	$ 1,337	$ 1,209	$ (128)
Total	$ 7,832	$ 15,945	$ 8,113

Book values of securities with no available fair values as of March 31, 2006 and 2005 were as follows:

2006	Millions of yen	Thousands of U.S. dollars
Available-for-sale securities:		
Non-listed equity securities	**¥164**	**$1,396**
Equity securities issued by subsidiaries and affiliated companies not consolidated or accounted for using the equity method	**220**	**1,873**
Total	**¥384**	**$3,269**

2005	Millions of yen	Thousands of U.S. dollars
Available-for-sale securities:		
Non-listed equity securities	¥164	$ 1,396
Equity securities issued by subsidiaries and affiliated companies not consolidated or accounted for using the equity method	220	1,873
Total	¥384	$ 3,269

Total sales of available-for-sale securities sold in the year ended March 31, 2006 amounted to ¥459 million (U.S.$3,907 thousand) and the related net gains amounted to ¥165 million (U.S.$1,405 thousand).

Total sales of available-for-sale securities sold in the year ended March 31, 2005 amounted to ¥307 million (U.S.$2,613 thousand) and the related net gains amounted to ¥214 million (U.S.$1,822 thousand).

5. Short-term loans payable and long-term debt

Short-term loans payable were represented by short-term notes payable to banks which are due principally in 360 days and weighted average interest rates were 1.37% and 1.91% at March 31,2006 and 2005, respectively.

Long-term debt at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	**2006**	2005
0.25% unsecured bonds due in 2006	**¥ —**	¥ 180	**$ —**	$ 1,532
0.30% unsecured bonds due in 2006	**—**	500	**—**	4,256
0.37% unsecured bonds due in 2007	**320**	512	**2,724**	4,359
Loans principally from banks and insurance companies with interest at rates of 1.1% to 2.76% due through 2009	**1,094**	2,135	**9,313**	18,175
Less amount due within one year	**(662)**	(1,912)	**(5,635)**	(16,276)
	¥ 752	¥1,415	**$ 6,402**	$12,046

The annual maturities of long-term debt at March 31, 2006 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	**¥662**	**$5,635**
2008	**392**	**3,337**
2009	**240**	**2,043**
2010	**120**	**1,022**

6. Pledged assets

The following assets were pledged as collateral for long-term debt amounting to ¥54 million (U.S.$460 thousand) at March 31, 2006.

	Millions of yen	Thousands of U.S. dollars
Investment securities	**¥ 377**	**$ 3,209**
Net book value of property, plant and equipment:		
Land	**5**	**43**
Buildings and structures	**876**	**7,457**
Machinery and equipment	**13**	**111**
	¥1,271	**$10,820**

7. Employees' severance and Retirement benefits

The liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

The liabilities for severance and retirement benefits included in the liabilities section of the consolidated balance sheets as of March 31, 2006 and 2005 consist of the following:

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	**2006**	2005
Projected benefit obligation	**¥(9,055)**	¥(9,043)	**$(77,083)**	$(76,981)
Unrecognized actuarial differences	**444**	920	**3,780**	7,832
Unrecognized past service costs	**57**	—	**485**	—
Less fair value of pension assets	**1,256**	960	**10,692**	8,172
Less unrecognized net transition obligation	**1,397**	1,746	**11,892**	14,863
Liability for severance and retirement benefits	**¥(5,901)**	¥(5,417)	**$(50,234)**	$(46,114)

Included in the consolidated statement of operations for the year ended March 31, 2006 and 2005 are severance and retirement benefits expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	**2006**	2005
Service costs—benefits earned during the year	**¥ 472**	¥ 491	**$4,018**	$ 4,180
Interest cost on projected benefit obligation	**116**	118	**987**	1,005
Amortization of net transition obligation	**349**	365	**2,971**	3,107
Amortization of actuarial differences	**94**	86	**800**	732
Amortization of past service costs	**5**	—	**43**	—
Severance and retirement benefit expenses	**¥1,036**	¥1,060	**$8,819**	$ 9,024

The discount rate used by the Company is 2%. The rate of expected return on plan assets used by the Company is 0%. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years.

Prior service costs are recognized as an expense in equal amounts over 13 years, and actuarial gains and losses are recognized in the income statements using the straight-line method over 13 years.

8. Income taxes

The Companies is subject to a number of taxes based on income, which, in the aggregate, indicate statutory rates in Japan of approximately 41.0% for the years ended March 31, 2006 and 2005, respectively.

The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax rate for financial statement purposes for the years ended March 31, 2005:

	2006	2005
Statutory tax rate	**— %**	41.0%
Non-taxable dividend income	**—**	(2.9)
Non-deductible expenses	**—**	15.8
Per capita inhabitants' tax	**—**	5.6
Decrease in valuation allowance	**—**	(68.0)
Other	**—**	5.2
Effective tax rate	**— %**	-3.3%

Information for 2006 is not presented as the Company incurred net loss in the year ended March31 ,2006.

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	**2006**	2005
Deferred tax assets;				
Retirement benefits	**¥2,390**	¥2,182	**$20,346**	$18,575
Loss on devaluation of investment securities and affiliated companies	**1,054**	1,171	**8,972**	9,969
Tax-loss carryforwards	**693**	762	**5,899**	6,487
Other	**1,797**	1,663	**15,298**	14,157
Valuation allowance	**(5,218)**	(5,114)	**(44,420)**	(43,535)
Offset against deferred tax liabilities	**(6)**	(6)	**(51)**	(51)
Total deferred tax assets	**¥ 710**	¥ 658	**$ 6,044**	$ 5,601
Deferred tax liabilities				
Gain on contribution of marketable and investment securities to the employees' retirement benefit trust	**(85)**	(85)	**(724)**	(724)
Net unrealized holding gain on securities	**(680)**	(397)	**(5,789)**	(3,380)
Other	**(5)**	—	**(42)**	—
Offset against deferred tax assets	**6**	6	**51**	51
Total deferred tax liabilities	**¥ (764)**	¥ (476)	**$ (6,504)**	$ (4,052)
Net deferred tax assets (liabilities)	**¥ (54)**	¥ 182	**$ (460)**	$ 1,549

9. Contingent liabilities

The Company and certain consolidated subsidiaries were contingently liable with respect to notes receivable discounted with banks in the amount of ¥5 million (U.S.$43 thousand), notes endorsed in the amount of ¥3 million (U.S.$26 thousand) and guarantees for bank borrowings of an unconsolidated subsidiary in the amount of ¥10 million (U.S.$85 thousand) at March 31, 2006.

10. Derivative transactions

The Company enters into currency option constructs and interest rate swap contracts as derivative financial instruments only for the purpose of mitigating future risks of fluctuation of foreign currency exchange rates with respect to foreign currency receivables and converting interest on certain long-term debt from variable to fixed rates.

The Company's derivative transactions are executed based on the internal rules and approved by the responsible officials. Account balances of such transactions are periodically confirmed with counterparties.

The derivative financial instruments are executed with creditworthy financial institutions, and the Company's management believes there is little default risk of counterparties.

The following summarizes hedging derivative financial instruments used by the Companies and items hedged:

Hedging instruments: Interest rate swap contracts

Hedged items: Interest on loans payable

Fair value of derivative transactions as of March 31, 2006 was as follows:

Currency option contracts: The company had no contracts.

Fair value of the derivative contracts which were effectively hedging the transactions was not disclosed.

11. Stockholders' equity

Under the Japanese laws and regulations, the entire amount of payment for new shares is required to be designated as common stock, although, generally, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Japanese Company Law (''the Law'') became effective on May 1, 2006, and, at the same time, the Japanese Commercial Code was repealed (''the Code'').

Under the Code, companies were required to set aside an amount equal to at least 10% of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock. Under the Law, in cases when dividends are paid, an amount equal to 10% of the dividends or the excess of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve, whichever is the smaller, must be set aside as additional paid-in-capital or legal earnings reserve. Under the Code, additional paid-in capital and legal earnings reserve were available for distribution by the resolution of the shareholders' meeting as long as the total amount of regal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock. Under the Law, even when the total amount of additional paid-in-capital and legal earnings reserve is less than 25% of common stock, additional paid-in-capital and legal earnings reserve may be available for dividends if there are sufficient distributable surplus. Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or may be capitalized by a resolution of the Board of Directors. Under the Law, both of those appropriations require a resolution of the shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Japanese laws and regulations.

At the annual shareholders' meeting held on June 29,2006, the shareholders directors' and corporate auditors' bonuses amounting to ¥22 million (U.S.$187 thousand), respectively. Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2006. Such appropriations will be recognized in the period when they are resolved.

12. Segment information

The Company's primary businesses are the manufacturing and sales of (1) telecommunications equipment, (2) electric measuring equipment and (3) reprographic equipment.

A summary of net sales, costs and expenses and operating income by business segment for the years ended March 31, 2006 and 2005 was as follows:

	Millions of yen					
	Tele-communications equipment	Electric measuring equipment	Reprographic equipment	Total	Elimination or corporate	Consolidated
For the year ended March 31, 2006:						
Net sales:						
Outside customers	**¥26,897**	**¥8,286**	**¥4,384**	**¥39,567**	**¥ —**	**¥39,567**
Inter-segment	**237**	**—**	**—**	**237**	**(237)**	**—**
total	**27,134**	**8,286**	**4,384**	**39,804**	**(237)**	**39,567**
Costs and expenses	**28,152**	**8,089**	**3,564**	**39,805**	**(236)**	**39,569**
Operating income (loss)	**¥(1,018)**	**¥ 197**	**¥ 820**	**¥ (1)**	**¥ (1)**	**¥ (2)**
Identifiable assets	**¥21,191**	**¥5,175**	**¥2,947**	**¥29,313**	**¥5,632**	**¥34,945**
Depreciation	**1,529**	**246**	**155**	**1,930**	**—**	**1,930**
Capital expenditures	**2,304**	**323**	**213**	**2,840**	**—**	**2,840**
For the year ended March 31, 2005:						
Net sales:						
Outside customers	¥29,390	¥9,372	¥4,538	¥43,300	¥ —	¥43,300
Inter-segment	213	—	—	213	(213)	—
total	29,603	9,372	4,538	43,513	(213)	43,300
Costs and expenses	29,536	9,369	3,705	42,610	(213)	42,397
Operating income	¥ 67	¥ 3	¥ 833	¥ 903	¥ 0	¥ 903
Identifiable assets	¥20,363	¥6,665	¥2,975	¥30,003	¥6,713	¥36,716
Depreciation	1,466	231	164	1,861	—	1,861
Capital expenditures	1,673	178	104	1,955	—	1,955

	Thousands of U.S. dollars					
	Tele-communications equipment	Electric measuring equipment	Reprographic equipment	Total	Elimination or corporate	Consolidated
For the year ended March 31, 2006:						
Net sales:						
Outside customers	**$228,969**	**$70,537**	**$37,320**	**$336,826**	**$ —**	**$336,826**
Inter-segment	**2,018**	**—**	**—**	**2,018**	**(2,018)**	**—**
total	**230,987**	**70,537**	**37,320**	**338,844**	**(2,018)**	**336,826**
Costs and expenses	**239,653**	**68,860**	**30,340**	**338,853**	**(2,010)**	**336,843**
Operating income (loss)	**$ (8,666)**	**$ 1,677**	**$ 6,980**	**$ (9)**	**$ (8)**	**$ (17)**
Identifiable assets	**$180,395**	**$44,054**	**$25,087**	**$249,536**	**$47,944**	**$297,480**
Depreciation	**13,016**	**2,094**	**1,320**	**16,430**	**—**	**16,430**
Capital expenditures	**19,614**	**2,750**	**1,812**	**24,176**	**—**	**24,176**
For the year ended March 31, 2005:						
Net sales:						
Outside customers	$250,192	$79,782	$38,631	$368,605	$ —	$368,605
Inter-segment	1,813	—	—	1,813	(1,813)	—
total	252,005	79,782	38,631	370,418	(1,813)	368,605
Costs and expenses	251,434	79,757	31,540	362,731	(1,813)	360,918
Operating income	$ 571	$ 25	$ 7,091	$ 7,687	$ 0	$ 7,687
Identifiable assets	$173,346	$56,738	$25,326	$255,410	$57,146	$312,556
Depreciation	12,480	1,966	1,396	15,842	—	15,842
Capital expenditures	14,242	1,515	886	16,643	—	16,643

Eliminations of assets include corporate assets that were principally cash, time deposits, investment in securities and certain other assets of the Administration division.

The corporate assets as of March 31, 2006 and 2005 were ¥5,632 million (U.S.$47,944 thousand) and ¥6,713 (U.S.$57,147 thousand), respectively.

A summary of net sales, costs and expenses, operating income (loss) and identifiable assets by geographic area for the years ended March 31, 2006 and 2005 is as follows:

	Millions of yen					
	Japan	North America	Asia	Total	Elimination or corporate	Consolidated
For the year ended March 31, 2006:						
Net sales:						
Outside customers	**¥36,682**	**¥2,866**	**¥ 19**	**¥39,567**	**¥ —**	**¥39,567**
Inter-segment	**1,055**	**15**	**2,262**	**3,332**	**(3,332)**	**—**
total	**37,737**	**2,881**	**2,281**	**42,899**	**(3,332)**	**39,567**
Costs and expenses	**37,774**	**2,866**	**2,267**	**42,907**	**(3,338)**	**39,569**
Operating income(loss)	**¥ (37)**	**¥ 15**	**¥ 14**	**¥ (8)**	**¥ 6**	**¥ (2)**
Identifiable assets	**¥29,597**	**¥1,526**	**¥1,405**	**¥32,528**	**¥2,417**	**¥34,945**
For the year ended March 31, 2005:						
Net sales:						
Outside customers	¥ 40,567	¥ 2,694	¥ 39	¥ 43,300	¥ —	¥ 43,300
Inter-segment	1,240	12	1,939	3,191	(3,191)	—
total	41,807	2,706	1,978	46,491	(3,191)	43,300
Costs and expenses	40,778	2,811	2,003	45,592	(3,195)	42,397
Operating income(loss)	¥ 1,029	¥ (105)	¥ (25)	¥ 899	¥ 4	¥ 903
Identifiable assets	¥ 30,490	¥ 1,496	¥ 1,116	¥ 33,102	¥ 3,614	¥ 36,716

	Thousands of U.S. dollars					
	Japan	North America	Asia	Total	Elimination or corporate	Consolidated
For the year ended March 31, 2006:						
Net sales:						
Outside customers	**$312,267**	**$24,398**	**$ 161**	**$336,826**	**$ —**	**$336,826**
Inter-segment	**8,981**	**128**	**19,256**	**28,365**	**(28,365)**	**—**
total	**321,248**	**24,526**	**19,417**	**365,191**	**(28,365)**	**336,826**
Costs and expenses	**321,563**	**24,398**	**19,298**	**365,259**	**(28,416)**	**336,843**
Operating income(loss)	**$ (315)**	**$ 128**	**$ 119**	**$ (68)**	**$ 51**	**$ (17)**
Identifiable assets	**$251,954**	**$12,991**	**$11,961**	**$276,905**	**$20,575**	**$297,480**
For the year ended March 31, 2005:						
Net sales:						
Outside customers	$ 345,339	$ 22,934	$ 332	$ 368,605	$ —	$ 368,605
Inter-segment	10,556	102	16,506	27,164	(27,164)	—
total	355,895	23,036	16,838	395,769	(27,164)	368,605
Costs and expenses	347,135	23,930	17,051	388,116	(27,198)	360,918
Operating income(loss)	$ 8,760	$ (894)	$ (213)	$ 7,653	$ 34	$ 7,687
Identifiable assets	$ 259,556	$ 12,735	$ 9,500	$ 281,791	$ 30,765	$ 312,556

Eliminations of assets include corporate assets that were principally cash, time deposits, investment in securities and certain other assets of the Administration division.

The corporate assets as of March 31, 2006 and 2005 were ¥5,632 million (U.S.$47,944 thousand) and ¥6,713 (U.S.$57,147 thousand), respectively.

Overseas net sales by the Company and consolidated subsidiaries for the years ended March 31, 2006 and 2005 were as follows:

	Millions of yen			
	North America	Asia	Other Areas	Total
For the year ended March 31, 2006:				
Overseas net sales	**¥4,515**	**¥1,466**	**¥231**	**¥ 6,212**
Consolidated net sales	**—**	**—**	**—**	**39,567**
Ratios of overseas net sales to consolidated net sales	**11.4%**	**3.7%**	**0.6%**	**15.7%**
For the year ended March 31, 2005:				
Overseas net sales	¥ 4,069	¥ 1,594	¥204	¥ 5,867
Consolidated net sales	—	—	—	43,300
Ratios of overseas net sales to consolidated net sales	9.4%	3.7%	0.5%	13.5%

	Thousands of U.S. dollars			
	North America	Asia	Other Areas	Total
For the year ended March 31, 2006:				
Overseas net sales	**$38,435**	**$12,480**	**$ 1,967**	**$ 52,882**
Consolidated net sales	**—**	**—**	**—**	**336,826**
Ratios of overseas net sales to consolidated net sales	**11.4%**	**3.7%**	**0.6%**	**15.7%**
For the year ended March 31, 2005:				
Overseas net sales	$ 34,639	$ 13,569	$ 1,737	$ 49,945
Consolidated net sales	—	—	—	368,605
Ratios of overseas net sales to consolidated net sales	9.4%	3.7%	0.5%	13.5%

13. Research and development expenses

Research and development expenses of the Companies for the years ended March 31, 2006 and 2005 were ¥3,632 million (U.S.$30,919 thousand) and ¥3,032 million (U.S.$25,811 thousand), respectively, and are included in manufacturing costs and selling, general and administrative expenses.

14. Information for certain lease payments

Finance leases which do not transfer ownership of properties to lessees are not capitalized and are accounted for in the same manner as operating leases. Certain information for such non-capitalized finance leases on a consolidated basis is as follows:

(1) Assumed purchase price, accumulated depreciation and book value of leased properties which include interest were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	**2006**	2005
Machinery and equipment:				
Purchase price	**¥79**	¥80	**$673**	$681
Accumulated depreciation	**54**	47	**460**	400
Book value	**25**	33	**213**	281

(2) Future lease payments, inclusive of interest, at March 31, 2006 were ¥25 million (U.S.$ 213 thousand), including ¥10 million (U.S.$ 85 thousand) due within one year.
(3) Lease payments for the years ended March 31, 2006 and 2005 were ¥11 million (U.S.$94 thousand) and ¥16 million (U.S.$136 thousand), respectively.
(4) Assumed depreciation charges are computed using the straight-line method over the lease terms assuming no residual values.

15. Loss from operations of test instruments

Iwatsu Test Instruments Corporation, a consolidated subsidiary of the Company, revised a contract with LeCroy Corporation and changed the term of operation. Due to the change in terms, the Company recorded a loss amounting to ¥599 million (U.S.$5,099 thousand) including the followings:

	Millions of yen	Thousands of U.S. dollars
Loss from disposal of inventory	¥113	$ 962
Loss from disposal of PPE	360	3,065
Development change	75	638
Other	51	434
	¥599	$ 5,099

INDEPENDENT AUDITORS' REPORT

1-2 TSUKUDO-CHO,
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JAPAN 162-8551

To the Board of Directors of
IWATSU ELECTRIC CO., LTD.:

We have audited the accompanying consolidated balance sheets of IWATSU ELECTRIC CO., LTD. and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of IWATSU ELECTRIC CO., LTD. and subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 and 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 29, 2006

DIRECTORS AND CORPORATE AUDITORS

President:
Yoshiyuki Ishibashi,
Chief Executive Officer

Vice Presidents:
Nobuo Sato,
Senior Executive Officer

Yoshihiro Kawata,
Senior Executive Officer

Hisao Nakayama,
Senior Executive Officer

Yuji Futamkura,
Executive Officer

Corporate Auditors:
Eiji Morigami
Hiroto Yoshimura
Yoshimasa Kushibe
Shinji Kiyohara
Keiji Tsuda

(As of June 2006)

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Fax: 852-2375-2993

Consolidated Subsidiaries:
Japan
Fukushima Iwatsu Co., Ltd.
Manufacture of telecommunications, industrial measuring and reprographic equipment
Denshi Kako Co., Ltd.
Manufacture of platemaker supplies
Iwatsu System Solution Co., Ltd.
Sale, installation, repair, and maintenance of telecommunications equipment
Iwatsu System & Software Co., Ltd.
Software development for telecommunications and industrial measuring equipment
Totsu Industry Co., Ltd.
Repair of telecommunications equipment
Iwatsu Logistics & Service Affairs Co., Ltd.
Product transport and warehouse management in each department, printing and property management
Iwatsu Test Instruments Corporation
Design, manufacture, sale, calibration and maintenance of industrial measuring equipment

Overseas
Iwatsu America, Inc.
Sale of telecommunications equipment in North America
Iwatsu (Malaysia) Sdn. Bhd.
Manufacture and sale of telecommunications equipment and industrial measuring equipment

Stock Exchange Listing:
Tokyo Stock Exchange, First Section

Transfer Agent and Registrar:
Mitsubishi UFJ Trust and Banking Corporation
Corporate Agency Division
4-5, Marunouchi 1-chome, Chiyoda-ku,
Tokyo 100-8212, Japan

Annual Meeting of Stockholders:
The annual meeting of stockholders of the Company is normally held in June in Tokyo, Japan.

IWATSU ELECTRIC CO., LTD.

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