

IWATSU ELECTRIC CO., LTD.

2008 ANNUAL REPORT
For the year ended March31, 2008

CONTENTS

Overview of Fiscal 2007
Consolidated Statements of Operations
Consolidated Balance Sheets
Consolidated Statements of Stockholders' Equity
Consolidated Statements of Cash Flows
Segment information

June 2008

Overview of Fiscal 2007

The economy of Japan during the term under review encountered extremely unstable conditions due to global financial apprehension resulting from the sub-prime loan problem originating in the U.S., and the rise in the prices of consumer goods as a consequence of sharply escalating prices of petroleum and raw materials. It is also impossible to ignore a persistent sense of uncertainty regarding the future epitomized by the feeling of uneasiness that has also become apparent in previously robust corporate profit and capital investment sectors and the signs of a cooling economy that we are also seeing among consumers.

Within this environment, the Group formulated the new medium-term business plan IWATSU Value-Up V6 in May 2007 incorporating various measures for boosting revenues based on the development of new business, and actively promoting the reinforcement of its response capabilities for the forthcoming realization of the next generation network (NGN).

In the Information Communications Division, we are striving to develop and expand sales of flagship IP compatible business communication systems and, during the term under review, are focusing efforts on the development of devices compatible with NTT's next generation network (NGN), as well as a new line of business communication systems designed for the U.S. market as a part of our measures to expand business in North America. In addition, for the domestic market, we realized improvements in the miniaturization, weight reduction and robustness of our on-premises digital cordless telephone sets. As a result, we released in January of this year the new model DC-PS8 cordless telephone, which fulfills users' requirements for such devices at various types of production facilities and a broad range of businesses. In addition, in the Test Instrument Division, we established a new collaborative relationship with LeCroy Corporation, an American company, in June of 2007 by entering into a strategic sales alliance aiming for expansion of business operations in Japan. Moreover, in the Reprographic Systems Division, we developed a wide format slitter for a specific customer in December 2007, thereby expanding the use of our products into peripheral printing fields.

Nevertheless, due to the slump in sales in the Information Communications Division and Electronic Platemaking Machinery Division during the term under review, consolidated sales amounted to ¥33,835 million (¥37,169 million in the previous term), a year-on-year decline of 8.9%. In terms of profit, although the company as a single unit sought to reduce costs and expenses, consolidated

operating profit/loss resulted in a loss of ¥607 million (¥258 million loss in the previous term) due in particular to deterioration in profits due to the impact of the broad decline in sales. Meanwhile, the company realized an increase in consolidated net profit for the term to ¥1,009 million (¥712 million loss in the previous term) by selling the company's welfare facilities and related parking facilities during the first half and posting an extraordinary gain with the aim of procuring investment funds for new business, and reinforcing the company's financial constitution.

Unpredictable conditions will very likely persist in Japan's economy hereafter due to the surging price of oil and the higher prices for raw materials, consumer goods and so forth as well as moves in the U.S. economy and international financial markets.

Realizing such, the company will continue to focus efforts on realizing an early return to profitability and the creation of new business activities in its information communication operations in compliance with the three basic policies set forth in the medium-term business plan IWATSU Value-Up V6, namely, challenging new operations, reforming the profit structure and reforming the group management structure. Specifically, we will promote expanded sales and the enhancement of operational efficiency by releasing NGN-compatible devices in the domestic market and, overseas, releasing our new line of business communication systems in North America. Moreover, in April of this year, the company established a new Advanced Products Development Department, which has been placed in charge of new business operations as the technology sector, and is coordinating efforts to establish a structure that will enable the prompt examination of development projects. We will further pursue a reorganization of the sales department structure regardless of the business field with the aim of strengthening the profit structure.

As a result, we foresee performance for the term ending in March 2009 in the range of ¥36,500 million in consolidated sales, ¥200 million in consolidated operating profit and a loss of ¥200 million in consolidated net profit for the term.

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED BALANCE SHEETS
March 31, 2008 and 2007

<u>ASSETS</u>	Millions of yen		Thousands of U.S. dollars	
	2008	2007	2008	2007
Current assets:				
Cash	¥ 6,540	¥ 4,015	\$ 65,276	\$ 40,074
Notes and accounts receivable - trade:				
Unconsolidated subsidiaries and affiliated companies	259	403	2,585	4,022
Other	8,274	10,713	82,583	106,927
Inventories	4,540	5,698	45,314	56,872
Deferred tax assets	292	247	2,914	2,465
Other current assets	532	408	5,310	4,073
Allowance for doubtful accounts	(208)	(14)	(2,076)	(140)
Total current assets	<u>20,229</u>	<u>21,470</u>	<u>201,906</u>	<u>214,293</u>
Property, plant and equipment, at cost				
Land	1,025	1,035	10,231	10,330
Buildings and structures	11,317	11,259	112,955	112,376
Machinery and equipment	13,321	17,538	132,957	175,047
Construction in progress	5	0	50	2
	<u>25,668</u>	<u>29,832</u>	<u>256,193</u>	<u>297,755</u>
Accumulated depreciation	(20,303)	(24,117)	(202,645)	(240,713)
	<u>5,365</u>	<u>5,715</u>	<u>53,548</u>	<u>57,042</u>
Intangible assets	1,516	2,470	15,132	24,653
Investments and other assets:				
Investment securities	1,237	1,618	12,347	16,149
Investments in unconsolidated subsidiaries and affiliated companies	307	266	3,064	2,655
Long-term loans receivable:				
Unconsolidated subsidiaries and affiliated companies	17	32	170	319
Other	22	29	220	289
Long-term prepaid expenses	1	8	10	80
Deferred tax assets	91	94	908	938
Other assets	1,009	1,257	10,070	12,547
Allowance for doubtful accounts	(282)	(304)	(2,815)	(3,034)
	<u>2,402</u>	<u>3,000</u>	<u>23,974</u>	<u>29,943</u>
	<u>¥ 29,512</u>	<u>¥ 32,655</u>	<u>\$ 294,560</u>	<u>\$ 325,931</u>

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED BALANCE SHEETS
March 31, 2008 and 2007

<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>	Millions of yen		Thousands of U.S. dollars	
	2008	2007	2008	2007
Current liabilities:				
Short-term loans payable	¥ 40	¥ 50	\$ 399	\$ 499
Long-term debt due within one year	1,012	764	10,101	7,626
Notes and accounts payable - trade:				
Unconsolidated subsidiaries and affiliated companies	26	20	260	200
Other	2,467	3,171	24,623	31,650
Accounts payable - other	839	341	8,374	3,404
Accrued liabilities	1,602	2,330	15,990	23,256
Income taxes payable	121	135	1,208	1,347
Other current liabilities	496	755	4,950	7,535
Total current liabilities	6,603	7,566	65,905	75,517
Long-term debt due after one year	744	1,756	7,426	17,527
Severance and retirement benefits for employees	2,752	4,122	27,468	41,142
Deferred tax liabilities	121	326	1,208	3,254
Other liabilities	829	904	8,273	9,022
Contingent liabilities				
Minority interests	-	-	-	-
Stockholders' equity:				
Common stock				
Authorized - 300,000,000 shares				
Issued - 100,803,447 shares	6,025	6,025	60,136	60,136
Capital surplus	6,942	6,942	69,288	69,288
Retained earnings	5,963	4,892	59,517	48,827
Net unrealized holding gains on securities	93	458	928	4,571
Foreign currency translation adjustments	(517)	(297)	(5,160)	(2,964)
	18,506	18,020	184,709	179,858
Less treasury stock of 206,809 shares (227,159 shares in 2007), at cost	(43)	(39)	(429)	(389)
Total stockholders' equity	18,463	17,981	184,280	179,469
	¥ 29,512	¥ 32,655	\$ 294,560	\$ 325,931

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended March 31, 2008 and 2007

	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, 2006	100,803,447	¥ 6,025	¥ 6,942	¥ 5,626	¥ 974	¥ (378)	¥ (34)
Net income (loss)	-	-	-	(712)	-	-	-
Adjustments from translation of foreign currency financial statements	-	-	-	-	-	81	-
Decrease of net unrealized holding gains on securities	-	-	-	-	(516)	-	-
Treasury stock	-	-	-	-	-	-	(5)
Bonuses to directors	-	-	-	(22)	-	-	-
Balance at March 31, 2007	100,803,447	¥ 6,025	¥ 6,942	¥ 4,892	¥ 458	¥ (297)	¥ (39)
Net income (loss)	-	-	-	1,009	-	-	-
Change of scope of equity method	-	-	-	62	-	-	-
Adjustments from translation of foreign currency financial statements	-	-	-	-	-	(220)	-
Decrease of net unrealized holding gains on securities	-	-	-	-	(365)	-	-
Treasury stock	-	-	-	-	-	-	(4)
Balance at March 31, 2008	100,803,447	¥ 6,025	¥ 6,942	¥ 5,963	¥ 93	¥ (517)	¥ (43)

	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, 2006	\$ 60,136	\$ 69,288	\$ 56,153	\$ 9,722	\$ (3,773)	\$ (339)	
Net income (loss)	-	-	(7,106)	-	-	-	
Adjustments from translation of foreign currency financial statements	-	-	-	-	809	-	
Increase of net unrealized holding gains on securities	-	-	-	(5,151)	-	-	
Treasury stock	-	-	-	-	-	(50)	
Bonuses to directors	-	-	(220)	-	-	-	
Balance at March 31, 2007	\$ 60,136	\$ 69,288	\$ 48,827	\$ 4,571	\$ (2,964)	\$ (389)	
Net income (loss)	-	-	10,071	-	-	-	
Change of scope of equity method	-	-	619	-	-	-	
Adjustments from translation of foreign currency financial statements	-	-	-	-	(2,196)	-	
Increase of net unrealized holding gains on securities	-	-	-	(3,643)	-	-	
Treasury stock	-	-	-	-	-	(40)	
Balance at March 31, 2008	\$ 60,136	\$ 69,288	\$ 59,517	\$ 928	\$ (5,160)	\$ (429)	

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2008 and 2007

	Millions of yen		dollars	
	2008	2007	2008	2007
Cash flows from operating activities:				
Income (loss) before income taxes and minority interests	¥ 1,109	¥ (280)	\$ 11,069	\$ (2,795)
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation	1,517	1,870	15,141	18,665
Non-recurring depreciation on noncurrent assets	1,470	-	14,672	-
Increase (Decrease) in allowance for doubtful accounts	171	(57)	1,707	(569)
Increase (Decrease) in severance and retirement benefits	(1,366)	(1,783)	(13,634)	(17,796)
Interest and dividend income	(74)	(73)	(739)	(729)
Interest expense	44	23	439	230
Equity in earnings (losses) of affiliates	(33)	-	(329)	-
Gain on sale of investment securities, net	(173)	(414)	(1,727)	(4,132)
Gain on sale of property, plant and equipment	(4,244)	(42)	(42,360)	(419)
Loss on sale and disposal of property, plant and equipment	246	61	2,455	609
Changes in operating assets and liabilities - net:				
Decrease (Increase) in notes and accounts receivable - trade	2,553	(394)	25,482	(3,933)
Decrease in inventories	1,047	480	10,450	4,791
Decrease in notes and accounts payable - trade	(638)	(785)	(6,368)	(7,835)
Increase in accrued expenses	(835)	83	(8,334)	828
Other - net	40	893	400	8,913
Subtotal	834	(418)	8,324	(4,172)
Interest and dividend received	74	73	739	729
Interest paid	(44)	(23)	(439)	(230)
Income taxes paid	(208)	(161)	(2,076)	(1,607)
Net cash provided by operating activities	656	(529)	6,548	(5,280)
Cash flows from investing activities:				
Decrease (Increase) in time deposits	(27)	(1)	(269)	(10)
Proceeds from sale of investment securities	385	580	3,843	5,789
Payment for purchase of investment securities	(417)	(54)	(4,162)	(539)
Proceeds from sale of properties	4,252	51	42,439	509
Payment for purchase of properties , intangible assets and long-term prepaid expenses	(1,627)	(1,753)	(16,239)	(17,497)
Proceeds from liquidation of investment securities	1	16	10	160
Other - net	120	(128)	1,197	(1,278)
Net cash used in investing activities	2,687	(1,289)	26,819	(12,866)
Cash flows from financing activities:				
Decrease in short-term bank loans	(10)	14	(100)	140
Proceeds from long-term debt	-	1,800	-	17,966
Repayments of long-term debt	(764)	(694)	(7,626)	(6,927)
Dividends paid	(0)	(0)	(0)	(0)
Other - net	(4)	(6)	(39)	(60)
Net cash used in financing activities	(778)	1,114	(7,765)	11,119
Effect of exchange rate changes on cash and cash equivalents	(62)	19	(620)	190
Net increase in cash and cash equivalents	2,503	(685)	24,982	(6,837)
Cash and cash equivalents at beginning of year	3,961	4,646	39,535	46,372
Cash and cash equivalents at end of year	¥ 6,464	¥ 3,961	\$ 64,517	\$ 39,535

IWATSU ELECTRIC CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2008 AND 2007

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, 2008 and 2007 was as follows:

	Millions of yen					
	Telecommunications equipment	Electric measuring equipment	Reprographic equipment	Total	Elimination or corporate	Consolidated
For the year ended March 31, 2008:						
Net sales:						
Outside customers	¥ 22,172	¥ 8,188	¥ 3,475	¥ 33,835	¥ -	¥ 33,835
Inter-segment	0	-	-	0	(0)	-
total	<u>22,172</u>	<u>8,188</u>	<u>3,475</u>	<u>33,835</u>	<u>(0)</u>	<u>33,835</u>
Costs and expenses	23,152	7,991	3,300	34,443	(1)	34,442
Operating income (loss)	<u>¥ (980)</u>	<u>¥ 197</u>	<u>¥ 175</u>	<u>¥ (608)</u>	<u>¥ 1</u>	<u>¥ (607)</u>
Identifiable assets	¥ 15,982	¥ 4,624	¥ 2,431	¥ 23,037	¥ 6,475	¥ 29,512
Depreciation	(1,147)	(188)	(182)	(1,517)	-	(1,517)
Capital expenditures	1,367	156	104	1,627	-	1,627
For the year ended March 31, 2007:						
Net sales:						
Outside customers	¥ 24,650	¥ 7,602	¥ 4,917	¥ 37,169	¥ -	¥ 37,169
Inter-segment	94	-	-	94	(94)	-
total	<u>24,744</u>	<u>7,602</u>	<u>4,917</u>	<u>37,263</u>	<u>(94)</u>	<u>37,169</u>
Costs and expenses	26,357	7,352	3,811	37,520	(93)	37,427
Operating income (loss)	<u>¥ (1,613)</u>	<u>¥ 250</u>	<u>¥ 1,106</u>	<u>¥ (257)</u>	<u>¥ (1)</u>	<u>¥ (258)</u>
Identifiable assets	¥ 20,140	¥ 4,976	¥ 3,451	¥ 28,567	¥ 4,088	¥ 32,655
Depreciation	1,558	135	177	1,870	-	1,870
Capital expenditures	1,465	99	189	1,753	-	1,753

IWATSU ELECTRIC CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2008 AND 2007

	Thousands of U.S. dollars					
	Telecommunications equipment	Electric measuring equipment	Reprographic equipment	Total	Elimination or corporate	Consolidated
For the year ended March 31, 2008:						
Net sales:						
Outside customers	\$ 221,300	\$ 81,724	\$ 34,684	\$ 337,708	\$ -	\$ 337,708
Inter-segment	0	-	-	0	(0)	-
total	<u>221,300</u>	<u>81,724</u>	<u>34,684</u>	<u>337,708</u>	<u>(0)</u>	<u>337,708</u>
Costs and expenses	231,081	79,758	32,937	343,776	(10)	343,766
Operating income (loss)	<u>\$ (9,781)</u>	<u>\$ 1,966</u>	<u>\$ 1,747</u>	<u>\$ (6,068)</u>	<u>\$ 10</u>	<u>\$ (6,058)</u>
Identifiable assets	\$ 159,517	\$ 46,152	\$ 24,264	\$ 229,933	\$ 64,627	\$ 294,560
Depreciation	(11,448)	(1,876)	(1,817)	(15,141)	-	(15,141)
Capital expenditures	13,644	1,557	1,038	16,239	-	16,239
For the year ended March 31, 2007:						
Net sales:						
Outside customers	\$ 246,032	\$ 75,876	\$ 49,077	\$ 370,985	\$ -	\$ 370,985
Inter-segment	938	-	-	938	(938)	-
total	<u>246,970</u>	<u>75,876</u>	<u>49,077</u>	<u>371,923</u>	<u>(938)</u>	<u>370,985</u>
Costs and expenses	263,069	73,381	38,038	374,488	(928)	373,560
Operating income (loss)	<u>\$ (16,099)</u>	<u>\$ 2,495</u>	<u>\$ 11,039</u>	<u>\$ (2,565)</u>	<u>\$ (10)</u>	<u>\$ (2,575)</u>
Identifiable assets	\$ 201,017	\$ 49,666	\$ 34,445	\$ 285,128	\$ 40,803	\$ 325,931
Depreciation	15,551	1,347	1,767	18,665	-	18,665
Capital expenditures	14,623	988	1,886	17,497	-	17,497

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, 2008 and 2007 were ¥6,475 million (U.S.\$64,627thousand) and ¥4,088(U.S.\$40,803thousand), respectively.

IWATSU ELECTRIC CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2008 AND 2007

A summary of net sales, costs and expenses, operating income (loss) and identifiable assets by geographic area for the years ended March 31, 2008 and 2007 is as follows:

Millions of yen						
	Japan	North America	Asia	Total	Elimination or corporate	Consolidated
For the year ended March 31, 2008:						
Net sales:						
Outside customers	¥ 31,150	¥ 2,641	¥ 44	¥ 33,835	¥ -	¥ 33,835
Inter-segment	1,057	12	2,121	3,190	(3,190)	-
total	<u>32,207</u>	<u>2,653</u>	<u>2,165</u>	<u>37,025</u>	<u>(3,190)</u>	<u>33,835</u>
Costs and expenses	32,758	2,727	2,134	37,619	(3,177)	34,442
Operating income(loss)	<u>¥ (551)</u>	<u>¥ (74)</u>	<u>¥ 31</u>	<u>¥ (594)</u>	<u>¥ (13)</u>	<u>¥ (607)</u>
Identifiable assets	¥ 23,706	¥ 1,070	¥ 1,201	¥ 25,977	¥ 3,535	¥ 29,512
For the year ended March 31, 2007:						
Net sales:						
Outside customers	¥ 34,470	¥ 2,668	¥ 31	¥ 37,169	¥ -	¥ 37,169
Inter-segment	1,173	10	1,904	3,087	(3,087)	-
total	<u>35,643</u>	<u>2,678</u>	<u>1,935</u>	<u>40,256</u>	<u>(3,087)</u>	<u>37,169</u>
Costs and expenses	35,687	2,900	1,988	40,575	(3,148)	37,427
Operating income(loss)	<u>¥ (44)</u>	<u>¥ (222)</u>	<u>¥ (53)</u>	<u>¥ (319)</u>	<u>¥ 61</u>	<u>¥ (258)</u>
Identifiable assets	¥ 28,959	¥ 1,315	¥ 1,309	¥ 31,583	¥ 1,072	¥ 32,655

Thousands of U.S. dollars						
	Japan	North America	Asia	Total	Elimination or corporate	Consolidated
For the year ended March 31, 2008:						
Net sales:						
Outside customers	\$ 310,909	\$ 26,360	\$ 439	\$ 337,708	\$ -	\$ 337,708
Inter-segment	10,550	120	21,170	31,840	(31,840)	-
total	<u>321,459</u>	<u>26,480</u>	<u>21,609</u>	<u>369,548</u>	<u>(31,840)</u>	<u>337,708</u>
Costs and expenses	326,959	27,218	21,300	375,477	(31,711)	343,766
Operating income(loss)	<u>\$ (5,500)</u>	<u>\$ (738)</u>	<u>\$ 309</u>	<u>\$ (5,929)</u>	<u>\$ (129)</u>	<u>\$ (6,058)</u>
Identifiable assets	\$ 236,610	\$ 10,680	\$ 11,987	\$ 259,277	\$ 35,283	\$ 294,560
For the year ended March 31, 2007:						
Net sales:						
Outside customers	\$ 344,046	\$ 26,630	\$ 309	\$ 370,985	\$ -	\$ 370,985
Inter-segment	11,708	99	19,004	30,811	(30,811)	-
total	<u>355,754</u>	<u>26,729</u>	<u>19,313</u>	<u>401,796</u>	<u>(30,811)</u>	<u>370,985</u>
Costs and expenses	356,193	28,945	19,842	404,980	(31,420)	373,560
Operating income(loss)	<u>\$ (439)</u>	<u>\$ (2,216)</u>	<u>\$ (529)</u>	<u>\$ (3,184)</u>	<u>\$ 609</u>	<u>\$ (2,575)</u>
Identifiable assets	\$ 289,041	\$ 13,125	\$ 13,065	\$ 315,231	\$ 10,700	\$ 325,931

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, 2008 and 2007 were ¥6,475 million (U.S.\$64,627thousand) and ¥4,088(U.S.\$40,803thousand), respectively.

IWATSU ELECTRIC CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2008 AND 2007

Overseas net sales by the Company and consolidated subsidiaries for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen			
	North America	Asia	Other Areas	Total
For the year ended March 31, 2008:				
Overseas net sales	¥ 3,148	¥ 1,409	¥ 270	¥ 4,827
Consolidated net sales	-	-	-	33,835
Ratios of overseas net sales to consolidated net sales	9.3%	4.1%	0.8%	14.2%
For the year ended March 31, 2007:				
Overseas net sales	¥ 3,430	¥ 1,493	¥ 127	¥ 5,050
Consolidated net sales	-	-	-	37,169
Ratios of overseas net sales to consolidated net sales	9.2%	4.0%	0.3%	13.5%

	Thousands of U.S. dollars			
	North America	Asia	Other Areas	Total
For the year ended March 31, 2008:				
Overseas net sales	\$ 31,420	\$ 14,063	\$ 2,695	\$ 48,178
Consolidated net sales	-	-	-	337,708
Ratios of overseas net sales to consolidated net sales	9.3%	4.1%	0.8%	14.2%
For the year ended March 31, 2007:				
Overseas net sales	\$ 34,234	\$ 14,902	\$ 1,268	\$ 50,404
Consolidated net sales	-	-	-	370,985
Ratios of overseas net sales to consolidated net sales	9.2%	4.0%	0.3%	13.5%