

IWATSU ELECTRIC CO., LTD.

2014 ANNUAL REPORT
For the year ended March 31, 2014

CONTENTS

Overview of Fiscal 2013
Consolidated Statements of Operations
Consolidated Statements of Comprehensive Income
Consolidated Balance Sheets
Consolidated Statements of Stockholders' Equity
Consolidated Statements of Cash Flows
Segment information

June 2014

Overview of Fiscal Year 2013

During fiscal year 2013, the Japanese economy shifted upward while seeing the depreciation of yen and rise in stock prices driven by economic and financial measures implemented by the government. Signs of positive momentum continued to be evident, such as higher corporate earnings and recuperating personal consumption. However, the general outlook still has a sense of uncertainty due to concerns over economic slowdown subsequent to the consumption tax increase, as well as the lingering debt problems in Europe and unstable economies in some of the developing countries.

Against this backdrop, the IWATSU Group pushed strongly ahead with strategic measures in line with its Medium Term Business Plan, "WING 2015 ~Challenge for Growth~". Our endeavors were twofold: (1) gain of traction in new business fields as a pivotal path to meet the Plan's numerical targets and (2) expansion of overseas operations and establishment of new business models for ongoing revenue streams based on prolonged relationship with customers as the groundwork for future business growth. We made every effort to realize these objectives, and achieved steady progress.

Consolidated net sales during the term under review amounted to 25,275 million yen, an increase of 4.0% from the previous fiscal year. In terms of profit, we made a sharp turnaround, which resulted in consolidated operating profit of 67 million yen compared to a loss of 275 million yen in the previous term. The significant improvement was achieved principally through the sales increase and better profit ratio. Furthermore, the net profit jumped up to 566 million yen (144 million yen in the previous term) mainly thanks to a subsidy income granted to a subsidiary (655 million yen).

In the fiscal year under review, the Iwatsu Group came very close to accomplishing the first year numerical targets of the Medium Term Business Plan. In terms of strategic measures, the Group made a full-scale entry into new business fields such as energy management, security and life-support communication. Moreover, the Group has actively worked to build up global business partner relationships to accelerate overseas deployment of power electronics equipment and digital label printing machines. Effective April 2014, Iwatsu Electric has set up a new "Smart Community Division" to focus on those new business fields that we pursued as separate initiatives. In the second year of the three-year Plan, the Group will vigorously advance the measures implemented in the first year.

In the fiscal year ended March 2015, the IWATSU Group is planning to attain 26,000 million yen in consolidated sales, to break even at the consolidated operating profit level and to secure 100 million yen in consolidated net profit, despite large development investments imposing a heavy burden on our bottom line.

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars	
	2014	2013	2014	2013
Income (loss) before minority interests	590	152	5,734	1,477
Other comprehensive income:				
Valuation difference on available-for-sale securities	128	131	1,253	1,273
Foreign currency translation adjustments	77	100	752	980
Total other comprehensive income	206	231	2,005	2,253
Comprehensive income	¥ 796	¥ 383	\$ 7,739	\$ 3,731
Comprehensive income attributable to:				
Owners of the parent	772	376	7,508	3,662
Minority interests	23	7	231	69

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED BALANCE SHEETS
March 31, 2014 and 2013

<u>ASSETS</u>	Millions of yen		Thousands of U.S. dollars	
	2014	2013	2014	2013
	¥	¥	\$	\$
Current assets:				
Cash and deposits	6,531	6,811	63,465	66,181
Notes and accounts receivable - trade:				
Unconsolidated subsidiaries and affiliated companies	-	-	-	-
Other	6,280	5,687	61,023	55,264
Short-term investment securities	199	1,998	1,941	19,416
Inventories	3,462	3,452	33,656	33,549
Deferred tax assets	35	33	346	322
Other current assets	241	337	2,344	3,279
Allowance for doubtful accounts	(6)	(12)	(65)	(124)
Total current assets	16,746	18,308	162,714	177,888
Property, plant and equipment, at cost				
Land	1,127	1,055	10,956	10,251
Buildings and structures	11,910	10,600	115,730	102,999
Machinery and equipment	12,397	11,803	120,454	114,687
Lease assets	72	90	699	883
Construction in progress	0	687	1	6,678
	25,506	24,235	247,840	235,498
Accumulated depreciation	(19,891)	(19,964)	(193,271)	(193,989)
Accumulated impairment loss	(67)	(70)	(655)	(686)
	5,548	4,201	53,914	40,824
Intangible assets	913	967	8,878	9,405
Investments and other assets:				
Investment securities	1,585	1,130	15,407	10,983
Long-term loans receivable	9	13	97	127
Real estate for investment- net	2,146	2,178	20,851	21,166
Deferred tax assets	44	46	431	450
Other assets	1,480	442	14,380	4,300
Allowance for doubtful accounts	(64)	(76)	(624)	(746)
	5,201	3,733	50,542	36,280
	¥ 28,411	¥ 27,211	\$ 276,051	\$ 264,397

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED BALANCE SHEETS
March 31, 2014 and 2013

<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>	Millions of yen		Thousands of U.S. dollars	
	2014	2013	2014	2013
Current liabilities:				
Short-term loans payable	¥ 87	¥ 83	\$ 846	\$ 814
Notes and accounts payable - trade:				
Unconsolidated subsidiaries and affiliated companies	6	-	59	-
Other	1,998	1,925	19,419	18,710
Lease obligations	18	20	180	198
Accounts payable - other	634	687	6,161	6,679
Accrued expenses	401	439	3,898	4,269
Income taxes payable	129	91	1,258	885
Provision for bonuses	662	653	6,440	6,346
Provision for directors' bonuses	17	18	171	179
Provision for product warranties	452	375	4,399	3,651
Other current liabilities	264	285	2,566	2,774
Total current liabilities	4,672	4,580	45,400	44,507
Long-term debt	36	45	357	440
Lease obligations	29	25	285	253
Severance and retirement benefits for employees	-	3,307	-	32,136
Net defined benefit liability	3,883	-	37,731	-
Deferred tax liability	1,083	842	10,525	8,189
Other liabilities	742	831	7,211	8,081
Total long-term liabilities	5,774	5,053	56,111	49,099
Stockholders' equity:				
Common stock				
Authorized - 300,000,000 shares				
Issued - 100,803,447 shares	6,025	6,025	58,545	58,545
Capital surplus	6,942	6,942	67,451	67,451
Retained earnings	5,264	4,796	51,150	46,607
Less treasury stock of 2,136,920 shares (2,123,965 shares in 2013), at cost	(190)	(189)	(1,853)	(1,841)
Total stockholders' equity	18,041	17,574	175,293	170,763
Valuation difference on available-for-sale securities	261	132	2,543	1,290
Foreign currency translation adjustments	(197)	(274)	(1,919)	(2,672)
Remeasurements of defined benefit plans	(307)	-	(2,987)	-
Total accumulated other comprehensive income	(243)	(142)	(2,363)	(1,381)
Minority interests	165	145	1,607	1,410
Total net assets	17,963	17,577	174,539	170,791
Contingent liabilities	-	-	-	-
Grand total	¥ 28,411	¥ 27,211	\$ 276,051	\$ 264,397

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended March 31, 2014 and 2013

Millions of yen

	Stockholders' equity					Accumulated other comprehensive income					Total net assets	
	Number of Shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total stockholders' equity	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total Accumulated other comprehensive income		Minority interests
Balance at March 31, 2012	100,803,447	¥ 6,025	¥ 6,942	¥ 4,651	¥ (49)	¥ 17,570	¥ 1	¥ (375)	¥ -	¥ (374)	¥ 138	¥ 17,334
Dividends from surplus												
Net income (loss)				144		144						144
Purchases of treasury stock					(140)	(140)						(140)
Other, net							131	100		231	7	238
Balance at March 31, 2013	100,803,447	¥ 6,025	¥ 6,942	¥ 4,796	¥ (189)	¥ 17,574	¥ 132	¥ (274)	¥ -	¥ (142)	¥ 145	¥ 17,577
Dividends from surplus				(98)		(98)						(98)
Net income (loss)				566		566						566
Purchases of treasury stock					(1)	(1)						(1)
Other, net							128	77	(307)	(101)	20	(80)
Balance at March 31, 2014	100,803,447	¥ 6,025	¥ 6,942	¥ 5,264	¥ (190)	¥ 18,041	¥ 261	¥ (197)	¥ (307)	¥ (243)	¥ 165	¥ 17,963

Thousands of U.S. dollars

	Stockholders' equity					Accumulated other comprehensive income					Total net assets
	Common stock	Capital Surplus	Retained earnings	Treasury stock	Total stockholders' equity	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total Accumulated other comprehensive income	Minority interests	
Balance at March 31, 2012	\$ 58,545	\$ 67,451	\$ 45,198	\$ (476)	\$ 170,719	\$ 17	\$ (3,652)	\$ -	\$ (3,635)	\$ 1,342	\$ 168,426
Dividends from surplus											
Net income (loss)			1,408		1,408						1,408
Purchases of treasury stock				(1,365)	(1,365)						(1,365)
Other, net						1,272	980		2,252	68	2,320
Balance at March 31, 2013	\$ 58,545	\$ 67,451	\$ 46,607	\$ (1,841)	\$ 170,763	\$ 1,290	\$ (2,672)	\$ -	\$ (1,381)	\$ 1,410	\$ 170,791
Dividends from surplus			(958)		(958)						(958)
Net income (loss)			5,502		5,502						5,502
Purchases of treasury stock				(11)	(11)						(11)
Other, net						1,253	752	(2,987)	(982)	197	(785)
Balance at March 31, 2014	\$ 58,545	\$ 67,451	\$ 51,150	\$ (1,853)	\$ 175,293	\$ 2,543	\$ (1,919)	\$ (2,987)	\$ (2,363)	\$ 1,607	\$ 174,539

IWATSU ELECTRIC CO., LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars	
	2014	2013	2014	2013
Cash flows from operating activities:				
Income (loss) before income taxes and minority interests	¥ 929	¥ (130)	\$ 9,026	\$ (1,269)
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation	900	930	8,751	9,045
Increase (Decrease) in allowance for doubtful accounts	(18)	(173)	(179)	(1,687)
Increase (Decrease) in provision for retirement benefits	-	172	-	1,677
Increase (Decrease) in net defined benefit liability	266	-	2,589	-
Interest and dividends income	(52)	(45)	(511)	(439)
Interest expenses	6	7	63	69
Loss (gain) on sales of investment securities	-	(34)	-	(330)
Subsidy income	(655)	(19)	(6,368)	(188)
Changes in operating assets and liabilities - net:				
Decrease (increase) in notes and accounts receivable - trade	(582)	682	(5,661)	6,629
Decrease (increase) in inventories	5	101	52	990
Increase (decrease) in notes and accounts payable - trade	71	183	697	1,783
Other-net	(8)	182	(83)	1,774
Subtotal	862	1,858	8,377	18,057
Interest and dividends income received	80	47	778	463
Interest expenses paid	(6)	(7)	(63)	(69)
Income taxes paid	(103)	(111)	(1,007)	(1,078)
Proceeds from subsidy income	655	19	6,368	188
Other-net	(91)	(16)	(890)	(156)
Net cash provided by (used in) operating activities	1,395	1,791	13,562	17,404
Cash flows from investing activities:				
Purchase of short-term investment securities	(899)	(2,999)	(8,743)	(29,143)
Proceeds from redemption of securities	2,700	3,000	26,233	29,148
Purchase of property, plant and equipment and intangible assets	(2,152)	(1,406)	(20,918)	(13,661)
Purchase of investment securities	(301)	(1)	(2,930)	(13)
Proceeds from sales of investment securities	-	116	-	1,135
Collection of loans receivable	98	1	956	11
Decrease (Increase) in time Deposits	(816)	(64)	(7,928)	(628)
Payments for investments in real estates	-	(2,199)	-	(21,372)
Other - net	(25)	22	(243)	220
Net cash provided by (used in) investing activities	(1,397)	(3,530)	(13,574)	(34,303)
Cash flows from financing activities:				
Dividends paid	(97)	(0)	(944)	(4)
Other - net	(31)	(165)	(307)	(1,605)
Net cash provided by (used in) financing activities	(128)	(165)	(1,251)	(1,610)
Effect of exchange rate changes on cash and cash equivalents	34	47	336	458
Net increase (decrease) in cash and cash equivalents	(95)	(1,857)	(927)	(18,050)
Cash and cash equivalents at beginning of year	5,483	7,341	53,277	71,328
Cash and cash equivalents at end of year	¥ 5,387	¥ 5,483	\$ 52,350	\$ 53,277

IWATSU ELECTRIC CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2014 AND 2013

Segment information

The Company's primary businesses are the manufacturing and sales of (1) Telecommunications equipment, (2) Electric measuring equipment and (3) Printing systems equipment.

A summary of net sales, costs and operating income by business segment for the years ended March 31, 2014 and 2013 was as follows:

	Millions of yen					
	Telecommunications equipment	Electric measuring equipment	Printing systems equipment	Others	Reconciliations	Consolidated
For the year ended March 31, 2014:						
Net sales:						
Outside customers	¥ 18,304	¥ 1,971	¥ 3,962	¥ 1,036	¥ -	¥ 25,275
Inter-segment	-	-	-	-	-	-
total	<u>18,304</u>	<u>1,971</u>	<u>3,962</u>	<u>1,036</u>	<u>-</u>	<u>25,275</u>
Operating income (loss)	<u>¥ 1,200</u>	<u>¥ 37</u>	<u>¥ 423</u>	<u>¥ (248)</u>	<u>¥ (1,346)</u>	<u>¥ 67</u>
Identifiable assets	¥ 13,077	¥ 1,316	¥ 3,298	¥ 695	¥ 10,023	¥ 28,411
Depreciation	(617)	(31)	(97)	(27)	(92)	(866)
For the year ended March 31, 2013:						
Net sales:						
Outside customers	¥ 16,897	¥ 2,118	¥ 4,113	¥ 1,166	¥ -	¥ 24,296
Inter-segment	-	-	-	-	-	-
total	<u>16,897</u>	<u>2,118</u>	<u>4,113</u>	<u>1,166</u>	<u>-</u>	<u>24,296</u>
Operating income (loss)	<u>¥ 875</u>	<u>¥ (4)</u>	<u>¥ 470</u>	<u>¥ (287)</u>	<u>¥ (1,329)</u>	<u>¥ (275)</u>
Identifiable assets	¥ 11,565	¥ 1,267	¥ 3,056	¥ 704	¥ 10,617	¥ 27,211
Depreciation	(564)	(51)	(135)	(23)	(134)	(909)

IWATSU ELECTRIC CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2014 AND 2013

Thousands of U.S. dollars

	Telecommunications equipment	Electric measuring equipment	Printing systems equipment	Others (*1)	Reconciliations (*2)	Consolidated
For the year ended March 31, 2014:						
Net sales:						
Outside customers	\$ 177,853	\$ 19,158	\$ 38,501	\$ 10,068	\$ -	\$ 245,582
Inter-segment	-	-	-	-	-	-
total	<u>177,853</u>	<u>19,158</u>	<u>38,501</u>	<u>10,068</u>	<u>-</u>	<u>245,582</u>
Operating income (loss)	<u>\$ 11,660</u>	<u>\$ 364</u>	<u>\$ 4,118</u>	<u>\$ (2,410)</u>	<u>\$ (13,078)</u>	<u>\$ 654</u>
Identifiable assets	\$ 127,066	\$ 12,792	\$ 32,048	\$ 6,757	\$ 97,386	\$ 276,051
Depreciation	(6,002)	(310)	(946)	(268)	(896)	(8,423)
For the year ended March 31, 2013:						
Net sales:						
Outside customers	\$ 164,184	\$ 20,583	\$ 39,968	\$ 11,333	\$ -	\$ 236,069
Inter-segment	-	-	-	-	-	-
total	<u>164,184</u>	<u>20,583</u>	<u>39,968</u>	<u>11,333</u>	<u>-</u>	<u>236,069</u>
Operating income (loss)	<u>\$ 8,506</u>	<u>\$ (39)</u>	<u>\$ 4,567</u>	<u>\$ (2,790)</u>	<u>\$ (12,921)</u>	<u>\$ (2,678)</u>
Identifiable assets	\$ 112,373	\$ 12,317	\$ 29,699	\$ 6,844	\$ 103,162	\$ 264,397
Depreciation	(5,481)	(499)	(1,320)	(229)	(1,304)	(8,835)

*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 individual reporting segment.

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 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.