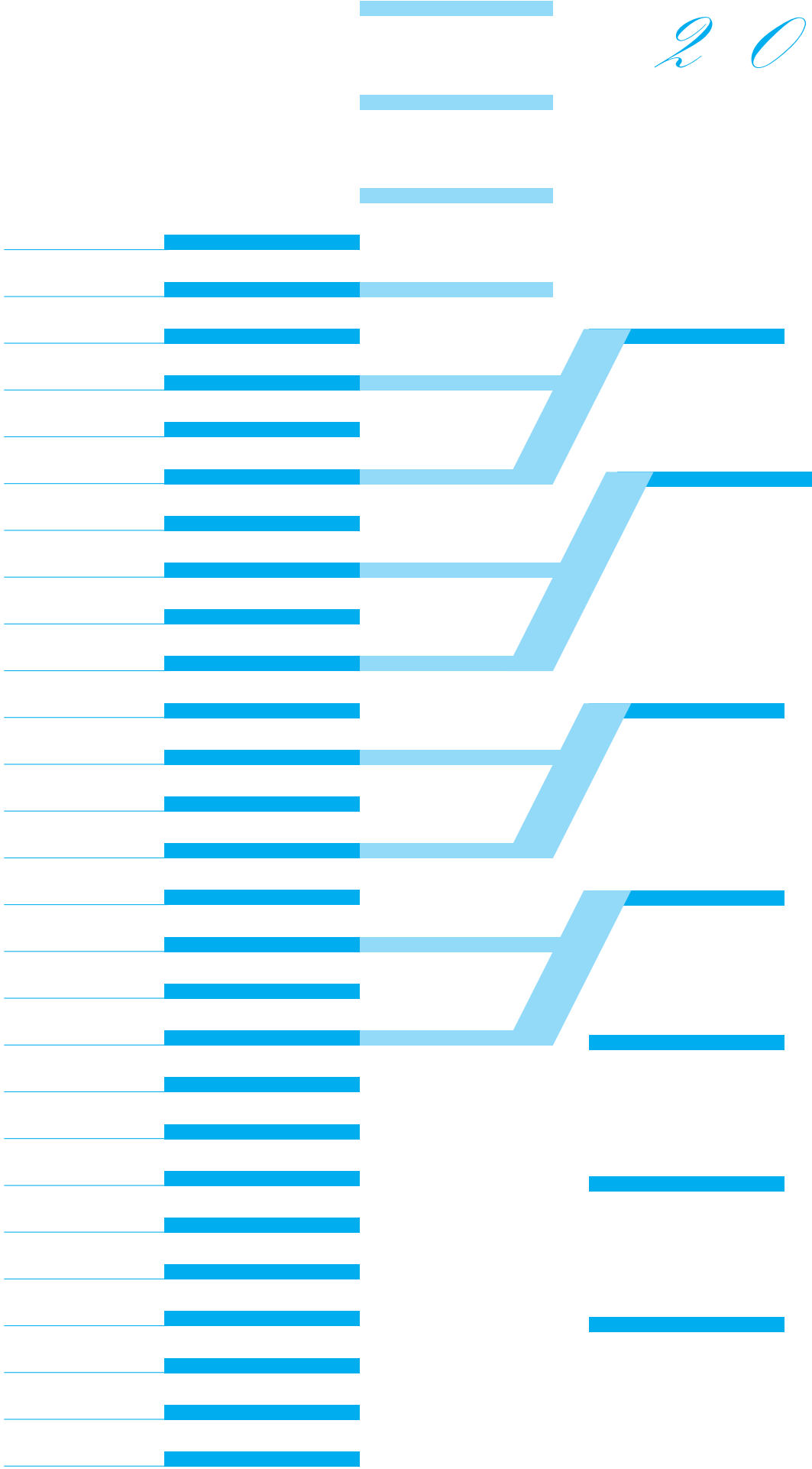


*Annual Report*  
*2007*

IWASAKI ELECTRIC CO., LTD.



## **PROFILE**

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Tokyo-based Iwasaki Electric Co.,Ltd. is a high-technology manufacturer with marketing and manufacturing operations worldwide.

The Company's principal operating area is lighting products include high intensity discharge(HID), incandescent and fluorescent lamps and fixtures, which are used in commercial and industrial lighting systems, electronics products and communications equipment.

Iwasaki also develops innovative applied optics applications for ultraviolet, infrared and electron-beam radiation for customers in fields such as photo-chemistry, electronics, semiconductor manufacturing and biotechnology.

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## MESSAGE FROM THE PRESIDENT

The consolidated performance for the fiscal year that ended in March 2007 showed sales of ¥70.9 billion, a 1.1% decrease compared to the previous year. However, our operating income increased by 40.2% (¥2.681 billion) . While sales continued to be more than ¥70 billion and there has been no change to our share price in recent years, we are actively promoting a shift to the private markets while continuing with the operation of responding to the demands from government and public projects. The effect of our efforts is gradually starting to show, staving off the term-end-centered sales structure to a considerable extent.

As for the lighting sector, although the market for lighting has reached maturity, we are maintaining our sales while developing new markets on the company theme of “The Environment, Safety and Peace of Mind”. We have been developing products which speedily respond to the needs of the market, with the understanding that it is important to increase our share by creating competitive products. As a result of strengthening the line of products of low-wattage, high efficacy, high color rendering ceramic metal halide lamp and by responding to the demand for alternative lamps as energy conservation measures, which is increasing in factories and commercial establishments, we were able to achieve more than a 50% increase in shipping compared to the previous year.

In the applied optics sector, revenue and profit increased in the field of sterilization, i.e., orders for the Pulsed Xenon Sterilization System for medical product manufacturers and electron-beam irradiation system for beverage manufacturers, while sales resulting from government and public offices’ demand of road information display equipment decreased. However, in the image operation field, the performance of light source units for data projectors has done well.

We have been making efforts to develop high-value-added products as well as to provide quality services, and in an aim to become a company that is loved by and counted on by customers and a company that its staff can be proud of, we have established our long-term vision towards the year 2011 and have formulated a 3-year business plan “Run-up 2011/Phase 1” (2007-2009) as its preliminary step. We hope to gain a solid foothold by reorganizing our business, generating high-revenue and by investing in research including the infusion of engineers. For our lasting growth, we will focus our effort on fostering and expanding a new applied optics business which would be the core of our revenue in the future. We would be grateful for your further support.

Takao Kumasaka  
President



# CONSOLIDATED SIX-YEAR SUMMARY

	Millions of Yen						Thousands of
	Year ended March 31						U.S. Dollars <sup>2</sup>
	2007	2006	2005	2004	2003	2002	2007
<b>For the year:</b>							
Net sales	<b>¥70,989</b>	¥71,743	¥72,486	¥70,497	¥70,920	¥70,620	<b>\$601,147</b>
Net Income (loss)	<b>475</b>	745	1,554	649	337	(1,890)	<b>4,023</b>
<b>At year-end:</b>							
Total assets	<b>¥78,114</b>	¥77,996	¥79,445	¥78,826	¥78,420	¥81,436	<b>\$661,487</b>
Total shareholders' equity <sup>3</sup>	<b>30,228</b>	30,247	28,968	28,275	26,712	26,610	<b>255,982</b>
Working capital	<b>23,788</b>	18,787	18,116	22,298	15,316	17,596	<b>201,444</b>
Long-term bank loans, less current portion	<b>3,233</b>	3,328	433	2,454	653	759	<b>27,386</b>
<b>Amounts per share:<sup>4</sup></b>							
Net income (loss) <sup>5</sup>	<b>¥6.10</b>	¥9.32	¥19.43	¥7.85	¥3.98	(¥24.49)	<b>\$0.05</b>
Cash dividends, applicable to earnings of the year <sup>6</sup>	<b>5.00</b>	5.00	5.00	5.00	5.00	0.00	<b>0.04</b>

1. Yen figures in the Consolidated Six-Year Summary have been truncated, omitting numbers below the million mark in accordance with the Japanese Commercial Code and generally accounting in Japan.

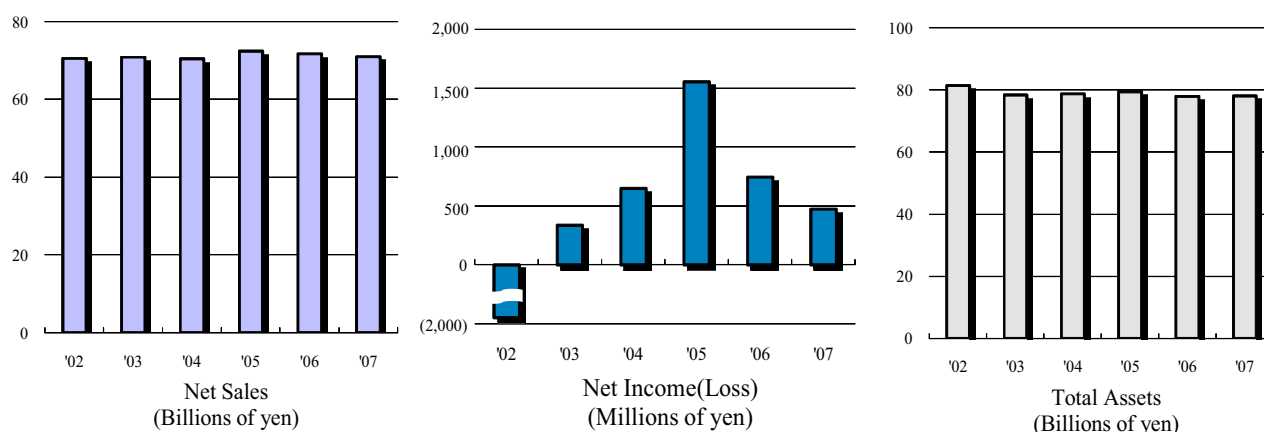
2. See Note 1 of Notes to Consolidated Financial Statements.

3. Total shareholders' equity = Total net assets - Minority interests

4. Per share figures are in exact yen and U.S. dollar amounts.

5. See Note 1 of Notes to Consolidated Financial Statements.

6. Cash dividends per share represent the cash dividends approved by the Board of Directors as applicable to the respective years together with interim cash dividends paid. Cash dividends per share do not reflect cash dividends approved at the shareholders' meeting that is held after the end of each fiscal year.



## **1. Overview of the Current Term**

Japan's economy for this consolidated fiscal year is continuing on the path of economic recovery supported by private sector demand against the backdrop of improved business earnings and increased capital investment.

In such economic environment, our whole group has reorganized part of our business in order to engage in enhancing our performance by developing and launching new products to respond to the market needs and to advance our business efficiency by effectively utilizing our whole group's economic resources to improve the group's corporate value.

As a result, sales were ¥70.989 billion (1.1% decrease from ¥71.743 billion of the previous year) and operating income was ¥2.681 billion (40.2% increase from ¥1.912 billion of the previous year). Although we had gains by disposing part of our fixed assets, our net income was ¥475 million (36.2% decrease from ¥745 million of the previous year) after including into other expenses ¥440 million of provision for directors' retirement and severance benefits and ¥200 million of a penalty for breach of contract.

The performances of the segments by the nature of business are as follows.

### **< Lighting Sector >**

As the leading manufacturer of HID products, this sector has been promoting product and business development in accordance with our company's theme, "The Environment, Safety and Reassurance", that is also in line with the times.

In the field of light source, we have achieved an increase in shipment in excess of 50% from the previous year by responding to the substitute demand of energy conservation measures, which is increasing in factories and commercial establishments, by strengthening the lineup of low-wattage, indoor use type products of the high color rendering and highly efficient ceramic metal halide lamp.

In the lighting fixture field, we have launched the third series of L-CUBE, a lighting fixture for commercial establishments which maximizes the performance of the ceramic metal halide lamps, and the compact form of the Urban Act series, a lighting fixture for signboard and billboard lighting.

In terms of sales prices, in July and November, we have revised the prices of some of our lighting fixtures for outdoor and indoor facilities in response to the steep rise in the prices of raw materials such as steel products and the rise in logistics costs.

As for production, we are continuing to make efforts in cutting costs, for example, by transferring part of the production of HID products to our overseas subsidiary, Dalian Iwasaki Electric Co., Ltd.

As a result, sales were ¥40.211 billion (0.6% decrease from ¥40.438 billion of the previous year) and operating income was ¥1.968 billion (22.9% increase from ¥1.601 billion of the previous year).

### **< Applied Optics Sector >**

In the sterilization field, revenue and profit increased as orders focused on the Pulsed Xenon Sterilization System for medical suppliers which sterilizes plastic bottles after they are filled with chemicals, and electron-beam irradiation system for the sterile filling system for plastic (polyethylene terephthalate) drinking bottles for beverage manufacturers.

In the image operation field, the light source for data projectors continued to show favorable results.

As for the curing field, demands for UV lamps for flat panel production system decreased but there were sufficient demands for UV equipment for film coating and EB equipment for flexo printing.

Furthermore, the Irradiated Circulation Test Equipment for evaluating the solar battery cell and module is attracting attention as a clean-energy related product.

As a result, sales were ¥28.589 billion (1.8% decrease from ¥29.112 billion of the previous year), as the increase in sales in the fields of image operation and sterilization covered part of the reduction in sales of the information-related equipment and operating income was ¥3.156 billion (31.3% increase from ¥2.404 billion of the previous year).

#### < Other Sectors >

As a result of withdrawing from some unprofitable businesses, the proceeds for the other sectors were ¥2.188 billion (0.2% decrease from ¥2.193 billion of the previous year) and operating loss was ¥250 million (decline of ¥152 million from ¥97 million of the previous year).

The performance by regional segments is as follows.

#### < Japan >

Although sales for the lighting sector and information equipment decreased with the reduction of public works projects, as a result of the applied optics sector's good performance, sales were ¥65.699 billion (2.1% decrease from ¥67.137 billion of the previous year) and operating income was ¥4.402 billion (16.7% increase from ¥3.772 billion of the previous year).

#### < North America >

Due to the positive economic climate of USA, our two lighting and electron beam production and sales subsidiaries operated actively, resulting in sales of ¥4.945 billion (12.3% increase from ¥4.402 billion of the previous year), and operating income was ¥529 million (85.1% increase from ¥286 million of the previous year).

#### < Asia >

As a result of making structural improvement of the sales structure, sales were ¥1.089 billion (20.0% increase from ¥907 million of the previous year) and operating income was ¥54 million (a favorable increase of ¥103 million from ¥49 million operating loss of the previous year).

#### < Europe >

Sales were ¥187 million (15.5% increase from ¥161 million of the previous year) and operating loss was ¥15 million (almost the same level as the ¥15 million of the previous year).

## **2. Cash Flows**

In terms of consolidated cash flow, the ending balance for cash and cash equivalents increased by ¥487 million compared to the previous term to ¥11.803 billion.

### **(1) Cash Flows from Operating Activities**

The funds that increased as the result of the operating activities in this period were ¥1.597 billion (¥2.615 billion increase of funds in the previous fiscal year). The rough breakdown is as follows: income before income taxes and minority interests ¥1.518 billion; depreciation and amortization ¥1.808 billion; reduction of payables ¥1.658 billion.

### **(2) Cash Flows from Investing Activities**

The funds that decreased as the result of investing activities in this period were ¥955 million (¥1.114 billion decrease of funds in the previous year). The rough breakdown is as follows: purchases of property, plant and equipment ¥1.262 billion; proceeds from sales of property, plant and equipment ¥487 million.

### **(3) Cash Flows from Financing Activities**

The funds that decreased as the result of the financing activities in this period were ¥249 million (¥2.334 billion decrease of funds in the previous year). The rough breakdown is as follows: redemptions of bond ¥3.4 billion; proceeds from issuance of bonds ¥3.9 billion; dividends paid ¥390 million; repayment of short-term bank loans (net amount) ¥231 million.

## **3. Medium- and Long-Term Management Strategy**

The economic environment which surrounds our company is becoming increasingly severe by the downsizing of the market for the public works projects and the intensifying price-cutting competition. In such an environment, we will aim to greatly increase our income by reviewing our business in detail, specializing in high-income generating businesses and strengthening our cost-competitiveness. We are aware that in order to achieve such goals, it is necessary to make heavy investment in advanced technology and its systematization. To realize continuous growth, we will also focus on searching and fostering budding businesses that would become the core of revenue in the future.

### **<Lighting Sector>**

- ① We will substantially increase the supply of HID lamps for the domestic manufacturers specializing in fixtures.
- ② We will focus our effort on the systematization of light source, circuit and optics design technologies and the development of high-value-added products.
- ③ We will maintain the market for demand by the government and public offices as well as reinforce the supply of products for the private sector market and advance business in order to achieve this.

### **<Applied Optics Sector>**

- ① We will expand our sales channel and strengthen our sales force.
- ② We will develop new markets and strive to expand our share.
- ③ We will strengthen our structure of research and development and commercialize germinating themes.

#### **4. Important Business Agreements**

The Company has implemented the following corporate reorganization in order to effectively use the management resources of each company of the group and enhance corporate value by improving business efficiency.

The merger of Iwasaki Environmental Facilities Co., Ltd. and Iwasaki Information Systems Co., Ltd.

The Company has first made Iwasaki Environmental Facilities Co., Ltd. , its consolidated subsidiary, a wholly owned subsidiary of Iwasaki Information Systems Co., Ltd., another of its consolidated subsidiaries and then merged Iwasaki Information Systems Co., Ltd. as a surviving company on February 1<sup>st</sup> 2007.

Iwasaki Environmental Facilities Co., Ltd. and Iwasaki Information Systems Co., Ltd. both resolved to approve the merger agreement at their Board of Directors' meetings on December 25<sup>th</sup> and December 28<sup>th</sup> 2006 respectively, and concluded the merger agreement on December 28<sup>th</sup> 2006.

The outline of the agreement is as described in "Notes to Consolidated Financial Statements (Business Combinations)".

Merger between Iwasaki Information Systems Co., Ltd. and the Company

Further, the Company made the consolidated subsidiary, Iwasaki Information Systems Co., Ltd. after merger, its wholly owned subsidiary. Then, the merger agreement with the Company as the surviving company was resolved and approved by the Company's Board of Directors' Meeting held on December 25, 2006 and the Board of Directors' Meeting of Iwasaki Information Systems Co., Ltd. held on February 15, 2007. The merger agreement was concluded on February 23, 2007.

The outline of the agreement is as described in "Notes to Consolidated Financial Statements (Significant Subsequent Events)".

## FINANCIAL REVIEW

### **Financial and Operating Results Analysis**

#### **(1) Financial Analysis**

##### (Current Assets)

The balance of current assets in this consolidated fiscal year was ¥47.012 billion, which was an increase of ¥871 million compared to the previous consolidated fiscal year. The main contributing factor was the increase of inventories.

##### (Fixed Assets)

The balance of the fixed assets in this consolidated fiscal year was ¥31.096 billion, which was a decrease of ¥750 million compared to the previous consolidated fiscal year. The main contributing factor was ¥260 million from the sales of properties.

##### (Current Liabilities)

The balance of current liabilities in this consolidated fiscal year was ¥23.223 billion, which was a decrease of ¥4.129 billion compared to the previous consolidated fiscal year. The main contributing factors were the reduction of payables and redemptions of bond of ¥3.4 billion.

##### (Fixed Liabilities)

The balance of the fixed liabilities in this consolidated fiscal year was ¥22.317 billion, which was an increase of 5.179 billion compared to the previous consolidated fiscal year. The main contributing factors were the issuance of new bonds of ¥3.9 billion, increase in accrued employees' retirement and severance benefits of ¥428 million and negative goodwill of ¥588 million, which accompanied the company reorganization.

##### (Net Assets)

The total of the net assets in this consolidated fiscal year was ¥32.573 billion, which was an increase of ¥2.326 billion compared to the previous consolidated fiscal year. The main contributing factor was the ¥2.345 billion of minority interests being included in the net assets.

#### **(2) Operating Results Analysis**

##### (Gross Profit)

The gross profit in this consolidated fiscal year was ¥19.465 billion, which was an increase of ¥763 million compared to the previous consolidated fiscal year. The main contributing factors were cost reduction and growth of sales of high-margin products despite the ¥754 million decrease in proceeds due to a reduction in sales of the information equipment sector.

##### (Operating Income)

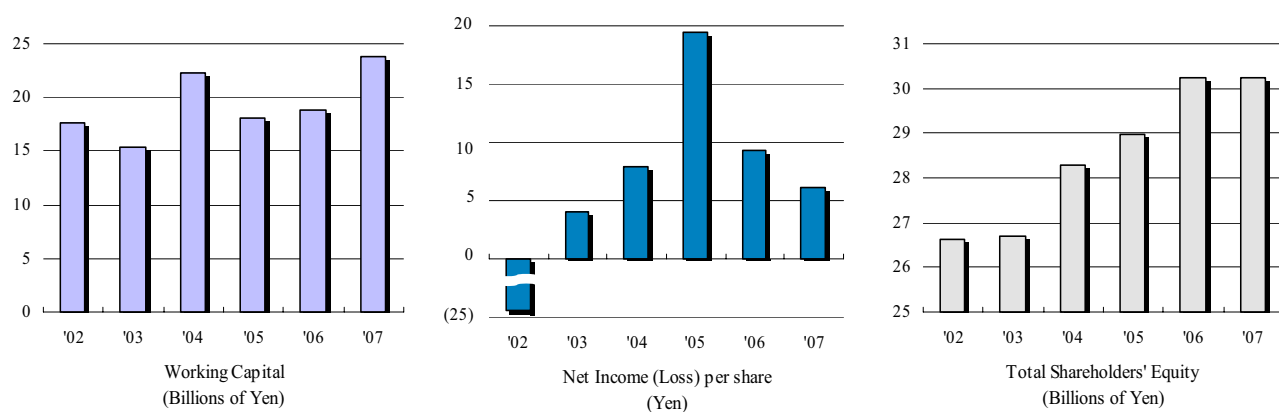
The operating income in this consolidated fiscal year was ¥2.681 billion, which was an increase of ¥769 million compared to the previous consolidated fiscal year. The main contributing factors were the same as the increase factors of the above gross profit, and the selling, general and administration expenses remained almost the same as the previous year.

(Income before Income Taxes and Minority interests)

The income before income taxes and minority interests in this consolidated fiscal year was ¥1.518 billion, which was an increase of ¥276 million compared to the previous consolidated fiscal year. The main contributing factors were the same as the increase factors of the above gross profit as well as the decrease of ¥93 million in the amortization of negative goodwill of other income (amortization of consolidation account adjustment in the previous consolidated fiscal year), transfer of ¥440 million of provision for directors' retirement and severance benefits to the other expenses of payment and the inclusion of ¥200 million of a penalty for breach of contract.

(Net Income)

The net income in this consolidated fiscal year was ¥475 million, which was a decrease of ¥270 million compared to the previous consolidated fiscal year. The main contributing factors were the increase factors of the above income before income taxes and minority interests, as well as the increase in income taxes.



# CONSOLIDATED BALANCE SHEETS

March 31, 2007 and 2006

## ASSETS

	Thousands of yen		Thousands of U.S. dollars (note 2)
	March 31, 2007	March 31, 2006	March 31, 2007
<b>Current assets:</b>			
Cash and time deposits	¥ 12,660,791	¥ 12,234,462	\$ 107,213
Trade notes and accounts receivable (note 19)	21,045,825	21,075,957	178,218
Inventories	11,210,491	10,423,015	94,932
Deferred tax assets (note 7)	634,106	578,926	5,370
Other current assets	1,551,003	1,923,860	13,134
Allowance for doubtful accounts	(89,850)	(95,688)	(761)
Total current assets	<u>47,012,366</u>	<u>46,140,532</u>	<u>398,106</u>
<b>Investments and other assets:</b>			
Investment securities (notes 4 and 9)	4,761,648	4,915,488	40,322
Long-term loans	175,372	144,296	1,485
Deferred tax assets (note 7)	2,811,020	2,784,850	23,804
Other	933,104	1,028,710	7,902
Allowance for doubtful accounts	(382,401)	(406,499)	(3,238)
Total investments and other assets	<u>8,298,743</u>	<u>8,466,845</u>	<u>70,275</u>
<b>Property, plant and equipment (notes 10 and 11):</b>			
Land	12,251,024	12,511,315	103,743
Buildings and structures	13,956,887	13,864,929	118,189
Machinery, equipment and vehicles	17,463,736	17,634,272	147,885
Tools, furniture and fixtures	8,745,883	9,004,106	74,061
Construction in progress	340,641	288,888	2,885
	<u>52,758,171</u>	<u>53,303,510</u>	<u>446,763</u>
Accumulated depreciation	(30,725,145)	(30,613,979)	(260,184)
Property, plant and equipment, net	<u>22,033,026</u>	<u>22,689,531</u>	<u>186,579</u>
<b>Intangible assets, net of accumulated amortization:</b>			
Software	567,529	490,486	4,806
Other	196,885	199,585	1,667
Intangible assets, net	<u>764,414</u>	<u>690,071</u>	<u>6,473</u>
<b>Deferred initial costs of business, net of accumulated amortization</b>			
	6,434	9,262	54
Total assets	<u>¥ 78,114,983</u>	<u>¥ 77,996,241</u>	<u>\$ 661,487</u>

*See accompanying notes to consolidated financial statements.*

# CONSOLIDATED BALANCE SHEETS

March 31, 2007 and 2006

## LIABILITIES AND NET ASSETS

	Thousands of yen		Thousands of U.S. dollars (note 2)
	March 31, 2007	March 31, 2006	March 31, 2007
<b>Current liabilities:</b>			
Trade notes and accounts payable	¥ 15,528,568	¥ 17,188,695	\$ 131,498
Short-term bank loans (note 5 and 10)	2,625,080	2,687,706	22,229
Current portion of bond (note 6)	-	3,400,000	-
Accrued income taxes	533,915	404,310	4,521
Consumption taxes payable	162,034	172,398	1,372
Accrued employees bonuses	843,062	887,499	7,139
Other current liabilities	3,531,192	2,612,872	29,903
Total current liabilities	<u>23,223,851</u>	<u>27,353,480</u>	<u>196,662</u>
<b>Long-term liabilities:</b>			
Bonds, less current portion (note 6)	3,900,000	-	33,026
Long-term bank loans, less current portion (note 5 and 10)	3,233,988	3,328,828	27,386
Deferred tax liability on land revaluation (note 11)	2,194,170	2,194,170	18,580
Accrued employees' retirement and severance benefits (note 18)	9,115,946	8,687,382	77,195
Other	3,873,132	2,927,020	32,798
Total long-term liabilities	<u>22,317,236</u>	<u>17,137,400</u>	<u>188,985</u>
Total liabilities	<u>45,541,087</u>	<u>44,490,880</u>	<u>385,647</u>
<b>Shareholders' equity</b>			
Common stock:			
Authorized 239,000,000 shares in 2007 and 2006			
Issued and outstanding 78,219,507 shares in 2007 and 2006			
	8,640,598	8,640,598	73,170
Capital surplus	6,172,619	6,172,562	52,271
Retained earnings	11,551,461	11,476,138	97,819
Treasury stock	(79,574)	(75,264)	(674)
Total shareholders' equity	<u>26,285,104</u>	<u>26,214,034</u>	<u>222,586</u>
<b>Valuation and translation adjustments:</b>			
Unrealized holding gain (loss) on available-for-sale securities	1,147,517	1,386,791	9,717
Surplus from land revaluation (note 11)	3,067,779	3,067,779	25,979
Foreign currency translation adjustments	(271,573)	(420,912)	(2,300)
Total valuation and translation adjustments	<u>3,943,723</u>	<u>4,033,658</u>	<u>33,396</u>
Minority interests	<u>2,345,069</u>	<u>3,257,669</u>	<u>19,858</u>
Total net assets	<u>32,573,896</u>	<u>33,505,361</u>	<u>275,840</u>
Contingent liabilities (note 19)			
Total liabilities and net assets	¥ <u>78,114,983</u>	¥ <u>77,996,241</u>	\$ <u>661,487</u>

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF INCOME

Years ended March 31, 2007 and 2006

	Thousands of yen		Thousands of U.S. dollars (note 2)
	Year ended March 31,2007	Year ended March 31,2006	Year ended March 31,2007
Net sales	¥ 70,989,499	¥ 71,743,929	\$ 601,147
Cost of sales	51,523,617	53,041,677	436,308
Gross profit	19,465,882	18,702,252	164,839
Selling, general and administrative expenses (note 12)	16,784,097	16,789,895	142,129
Operating income	2,681,785	1,912,357	22,710
Other income (note 13):			
Interest and dividends	98,779	73,823	836
Equity in earnings of affiliates	154,448	110,159	1,308
Amortization of negative goodwill	73,934	167,035	626
Foreign exchange profits	11,193	55,889	95
Gain on sale of property, plant and equipment	193,567	2,939	1,639
Gain on sale of investment securities	815	311,464	7
Other	160,807	164,563	1,362
	693,543	885,872	5,873
Other expenses (note 14):			
Interest expenses	201,310	213,151	1,705
Loss on sale and retirement of property, plant and equipment	59,203	64,829	501
Amortization of transition difference arising from change in accounting for employees' retirement and severance benefits	313,698	313,698	2,657
Devaluation loss on golf memberships	-	450	-
Losses on disposal of materials	-	162,921	-
Losses on disposal of inventories	169,842	-	1,438
Special charges	-	267,120	-
Litigation expenses	155,724	192,742	1,319
Prior year adjustment items	-	123,676	-
a penalty for breach of contract	200,706	-	1,700
Expenses for business reorganization of subsidiaries	165,532	-	1,402
Provision for directors' retirement and severance benefits	440,357	-	3,729
Allowance for doubtful accounts	5,369	562	45
Other	145,155	217,322	1,229
	1,856,896	1,556,471	15,725
Income before income taxes and minority interests	1,518,432	1,241,758	12,858
Income taxes: (note 7)			
Current	989,414	650,836	8,378
Deferred	80,916	(210,154)	685
	1,070,330	440,682	9,063
Income before minority interests	448,102	801,076	3,795
Minority interests	26,928	(55,970)	228
Net income	¥ 475,030	¥ 745,106	\$ 4,023

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years ended March 31, 2007 and 2006

	Thousands of yen					Total shareholders' equity
	Number of shares of common stock issued	shareholders' equity				
		Common stock	Capital surplus	Retained earnings	Treasury stock	
Balance at March 31, 2005	78,219,507	¥8,640,598	¥6,152,699	¥11,168,507	(¥95,912)	¥25,865,892
Gain on redemption of treasury stock	-	-	19,863	-	-	19,863
Cash dividends	-	-	-	(390,644)	-	(390,644)
Bonuses to directors and statutory auditors	-	-	-	(46,831)	-	(46,831)
Net income	-	-	-	745,106	-	745,106
Treasury stock acquired, net	-	-	-	-	20,648	20,648
Net changes in foreign currency translation adjustments	-	-	-	-	-	-
Net changes of items other than shareholders' equity	-	-	-	-	-	-
Balance at March 31, 2006	78,219,507	¥8,640,598	¥6,172,562	¥11,476,138	(¥75,264)	¥26,214,034
Cash dividends (note 15)	-	-	-	(390,548)	-	(390,548)
Bonuses to directors and statutory auditors	-	-	-	(24,353)	-	(24,353)
Net income	-	-	-	475,030	-	475,030
Treasury stock acquired, net	-	-	57	-	(4,310)	(4,253)
Adjustment for decrease in consolidated subsidiaries	-	-	-	29,606	-	29,606
Net changes in foreign currency translation adjustments	-	-	-	(14,412)	-	(14,412)
Net changes of items other than shareholders' equity	-	-	-	-	-	-
Balance at March 31, 2007	78,219,507	¥8,640,598	¥6,172,619	¥11,551,461	(¥79,574)	¥26,285,104

	Thousands of yen					Total net assets
	Valuation and translation adjustments					
	Unrealized holding gain (loss) on available-for-sale securities	Surplus from land revaluation	Foreign currency translation adjustments	Total Valuation and translation adjustments	Minority interests	
Balance at March 31, 2005	¥751,707	¥3,067,779	(¥716,692)	¥3,102,794	¥3,657,026	¥32,625,712
Gain on redemption of treasury stock	-	-	-	-	-	19,863
Cash dividends	-	-	-	-	-	(390,644)
Bonuses to directors and statutory auditors	-	-	-	-	-	(46,831)
Net income	-	-	-	-	-	745,106
Treasury stock acquired, net	-	-	-	-	-	20,648
Net changes in foreign currency translation adjustments	-	-	295,780	295,780	-	295,780
Net changes of items other than shareholders' equity	635,084	-	-	635,084	(399,357)	235,727
Balance at March 31, 2006	¥1,386,791	¥3,067,779	(¥420,912)	¥4,033,658	¥3,257,669	¥33,505,361
Cash dividends (note 15)	-	-	-	-	-	(390,548)
Bonuses to directors and statutory auditors	-	-	-	-	-	(24,353)
Net income	-	-	-	-	-	475,030
Treasury stock acquired, net	-	-	-	-	-	(4,253)
Adjustment for decrease in consolidated subsidiaries	-	-	-	-	-	29,606
Net changes in foreign currency translation adjustments	-	-	-	-	-	(14,412)
Net changes of items other than shareholders' equity	(239,274)	-	149,339	(89,935)	(912,600)	(1,002,535)
Balance at March 31, 2007	¥1,147,517	¥3,067,779	(¥271,573)	¥3,943,723	¥2,345,069	¥32,573,896

Thousands of U.S. dollars (note 2)						
shareholders' equity						
	Number of shares of common stock issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at March 31, 2006	78,219,507	\$73,170	\$52,270	\$97,181	(\$637)	\$221,984
Cash dividends (note 15)	-	-	-	(3,307)	-	(3,307)
Bonuses to directors and statutory auditors	-	-	-	(206)	-	(206)
Net income	-	-	-	4,022	-	4,022
Treasury stock acquired, net	-	-	1	-	(37)	(36)
Adjustment for decrease in consolidated subsidiaries	-	-	-	251	-	251
Net changes in foreign currency translation adjustments	-	-	-	(122)	-	(122)
Net changes of items other than shareholders' equity	-	-	-	-	-	-
Balance at March 31, 2007	78,219,507	\$73,170	\$52,271	\$97,819	(\$674)	\$222,586

Thousands of U.S. dollars (note 2)						
Valuation and translation adjustments						
	Unrealized holding gain (loss) on available-for-sale securities	Surplus from land revaluation	Foreign currency translation adjustments	Total Valuation and translation adjustments	Minority interests	Total net assets
Balance at March 31, 2006	\$11,743	\$25,979	(\$3,565)	\$34,157	\$27,586	\$283,727
Cash dividends (note 15)	-	-	-	-	-	(3,307)
Bonuses to directors and statutory auditors	-	-	-	-	-	(206)
Net income	-	-	-	-	-	4,022
Treasury stock acquired, net	-	-	-	-	-	(36)
Adjustment for decrease in consolidated subsidiaries	-	-	-	-	-	251
Net changes in foreign currency translation adjustments	-	-	-	-	-	(122)
Net changes of items other than shareholders' equity	(2,026)	-	1,265	(761)	(7,728)	(8,489)
Balance at March 31, 2007	\$9,717	\$25,979	(\$2,300)	\$33,396	\$19,858	\$275,840

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 2007 and 2006

	Thousands of yen		Thousands of U.S. dollars (note 2)
	March 31,2007	March 31,2006	March 31,2007
Cash Flows from Operating Activities:			
Income (loss) before income taxes and minority interests	¥ 1,518,432	¥ 1,241,758	\$ 12,858
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,808,708	1,840,419	15,316
Amortization of negative goodwill	(73,934)	(167,035)	(626)
Accrued employees' retirement and severance benefits	428,562	691,590	3,629
Accrued directors' retirement and severance benefits	440,357	-	3,729
Accrued employees bonuses	(44,436)	2,440	(376)
Accrued directors' bonuses	55,250	-	468
Allowance for doubtful accounts	(30,357)	7,628	(257)
Interest and dividends	(98,779)	(73,823)	(836)
Interest expenses	214,527	222,590	1,817
Foreign exchange gain (loss)	370	(8,524)	3
Gain on sales of marketable and investment securities	(815)	(302,969)	(7)
Loss on sale and retirement of property, plant and equipment	(134,363)	61,889	(1,138)
Equity in earnings or losses of affiliates	(154,448)	(110,159)	(1,308)
Devaluation loss on golf memberships	-	450	-
Penalty for breach of contract	200,706	-	1,700
Bonuses to directors and statutory auditors	(30,350)	(54,150)	(257)
Change in assets and liabilities:			
Receivables	29,087	75,636	246
Inventories	(791,158)	1,059,672	(6,700)
Payables	(1,658,941)	(1,347,290)	(14,048)
Other, net	1,254,449	308,243	10,624
Subtotal	2,932,867	3,448,365	24,837
Interest and dividends	150,279	101,725	1,273
Special charges and penalty for breach of contract	(467,826)	-	(3,962)
Interest	(195,282)	(224,596)	(1,654)
Income taxes	(822,937)	(710,485)	(6,969)
Net cash provided by operating activities	1,597,101	2,615,009	13,525
Cash Flows from Investing Activities:			
Increase in time deposit (more than 3 months)	(14,305)	(433,705)	(121)
Decrease in time deposit (more than 3 months)	75,630	445,701	640
Purchases of property, plant and equipment	(1,262,461)	(1,455,097)	(10,691)
Proceeds from sales of property, plant and equipment	487,573	293,617	4,129
Purchases of intangible assets	(278,641)	(188,491)	(2,360)
Purchases of investment securities	(73,506)	(311,946)	(622)
Proceeds from sales of investment securities	1,039	411,342	9
Payment of loans	(120,990)	(155,420)	(1,025)
Proceeds from collection of loans	136,114	159,070	1,153
Other,net	94,140	120,166	798
Net cash used in investing activities	(955,407)	(1,114,763)	(8,090)
Cash Flows from Financing Activities:			
Increase in short-term bank loans	16,658,863	8,985,396	141,069
Repayments of short-term bank loans	(16,890,765)	(9,883,476)	(143,033)
Increase in long-term bank loans	203,252	3,100,000	1,721
Repayments of long-term bank loans	(130,403)	(2,411,615)	(1,104)
Proceeds from issuance of bonds	3,900,000	-	33,026
Redemptions of bond	(3,400,000)	(1,500,000)	(28,792)
Proceeds from sales of treasury stock	598	80,087	5
Purchases of treasury stock	(4,851)	(118,699)	(41)
Purchases of subsidiaries treasury stock by the subsidiaries	(85,057)	-	(720)
Dividends paid	(390,548)	(390,644)	(3,307)
Dividends paid to minority interests	(110,832)	(195,220)	(939)
Net cash used in financing activities	(249,743)	(2,334,171)	(2,115)
Effect of exchange rate changes	95,703	75,046	810
Net Increase (Decrease) in Cash and Cash Equivalents	487,654	(758,879)	4,130
Cash and Cash Equivalents at Beginning of Year	11,315,636	12,074,515	95,822
Cash and Cash Equivalents at End of Year (note16)	¥ 11,803,290	¥ 11,315,636	\$ 99,952

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

March 31, 2007 and 2006

## 1. Summary of Significant Accounting Policies

### (a) Basis of presentation

The accompanying consolidated financial statements of IWASAKI ELECTRIC Co., Ltd. (“the Company”) and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to regards Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2006 to the 2007 presentation.

### (b) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of the Company and of all significant subsidiaries.

The investments in significant affiliates are accounted for by the equity method.

Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are stated at cost or less. Where there has been a permanent decline in the value of the investments, the Company has written them down to reflect the impairment.

All significant intercompany balances and transactions have been eliminated in consolidation.

### (c) Accounting period

The accounting period of the Company and its domestic subsidiaries begin on April 1 and end March 31 of the following year.

The accounts of foreign consolidated subsidiaries have fiscal years ending on December 31. The necessary adjustment for significant transactions between December 31 and March 31 of the following year, if any, are made in the preparation of consolidated financial statements.

### (d) Translation of foreign currency transactions and financial statements

Monetary assets and liabilities, including non-current receivables and payables denominated in foreign currencies are translated into yen at the rates in effect at the balance sheet date and the assets and liabilities of foreign consolidated subsidiaries are translated into yen at the rate of exchange in effect at the balance sheet date. Foreign exchange gains and losses resulting from foreign currency transactions are credited or charged to operations and translation differences resulting from the translation of the financial statements are included in net assets and minority interests.

**(e) Marketable securities and investment securities**

Trading securities are carried at market value and held-to-maturity securities are amortized or accumulated to face value.

Other securities with a market value are classified as available-for-sale securities and carried at market value.

The difference between the acquisition cost and the carrying value of other securities is recognized in unrealized loss on available-for-sale securities, net of related deferred income taxes, in net assets.

Other securities without a market value are stated at cost determined by the moving average method. The cost of other securities sold is computed based on the moving average method. During the years ended March 31, 2007 and 2006, the Company and consolidated subsidiaries had neither trading securities nor held-to-maturity securities.

**(f) Derivatives and the hedging activities**

The Company uses derivative financial instruments to manage the risks arising from fluctuations in foreign currency exchange rates and their exposures to fluctuations in interest rates. Interest rate swaps are utilized by the Company to reduce interest rate risks. Gains or losses arising from changes in the fair value of financial instruments designated as hedging instruments are deferred as assets or liabilities and charged to gains or losses during the same period in which the gains or losses on the hedged items are recognized. If interest rate swap agreements meet certain hedging criteria, the net amount to be paid or received under the agreement is added to or deducted from the interest on the hedged items. The Company does not enter into derivative for trading or speculative purposes.

Trade receivables, payable and forecasted transaction hedged by qualified forward foreign exchange contracts are translated at the corresponding foreign exchange contract rates.

**(g) Inventories**

Inventories are stated at cost determined by the weighted-average method.

**(h) Property, plant and equipment and depreciation**

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its domestic subsidiaries except for buildings, excluding structures, is principally computed by the declining-balance method in conformity with the Corporation Tax Law of Japan. Depreciation of property, plant and equipment of foreign subsidiaries and buildings, excluding structures, of the Company and its domestic subsidiaries is computed by the straight-line method.

**(i) Intangible assets and long-term prepaid expenses**

Intangible assets and long-term prepaid expenses of the Company and its subsidiaries are principally amortized by the straight-line method. Cost of software purchased for internal use is amortized by the straight-line method over 5 years, the useful lives of purchased software.

**(j) Allowance for doubtful receivables**

The Company and domestic subsidiaries provide allowances for estimated bad debt losses of the amounts calculated based on the past experience for receivables other than doubtful receivables and the uncollectible amounts estimated separately on each doubtful receivable. Overseas subsidiaries provide allowances for doubtful receivables principally based on the estimated uncollectible amounts.

**(k) Accrued employees bonuses**

Accrued employees bonuses are provided for payments of bonuses to employees at reasonably estimated amounts calculated based on the Company's bonus payment regulations and its subsidiaries except for foreign subsidiaries.

**(l) Accrued bonuses to directors and corporate auditors**

Accrued bonuses to directors and corporate auditors are provided for the expected payment of director and corporate auditor bonuses for the current fiscal year to those directors and corporate auditors serving at the end of the fiscal year.

**(m) Employees' retirement and severance benefits**

Accrued retirement and severance benefits are provided based on the actuarially calculated value of retirement and severance benefits obligation and the pension assets.

The transitional obligation of ¥4,705,469 thousand (US\$39,846 thousand) arising from the adoption of the accounting standard is amortized using straight-line method over 15 years from the year ended March 31, 2001. Actuarial gain or loss is amortized using the straight-line method over 15 years, which is within the estimated average remaining service years of employees.

**(n) Retirement benefits for directors and corporate auditors**

Retirement benefits for directors and corporate auditors are provided for at an amount based upon internal rules at the balance sheet date.

**(o) Leases**

Finance leases, except for those which transfer ownership of the property to the lessees, are accounted for similar to operating leases.

**(p) Amortization of negative goodwill**

Negative goodwill is amortized evenly over 5 years ; however it is amortized in the year when it is immaterial.

**(q) Consumption taxes**

Consumption tax is calculated by the tax- segregated method.

**(r) Cash and cash equivalents**

Cash and cash equivalents in the cash flow statements consist of cash on hand, demand deposit and liquid short-term investments with maturity of three months or less from acquisition dates.

**(s) Change of Accounting Policy**

At certain of the Company's consolidated subsidiaries for the year ended March 31, 2006, the classification of a portion of logistics expense and subcontracting work expense was changed from cost of sales to selling, general and administrative expenses.

The changes in classification have been made in order for the group accounting principles to be consistently applied among all consolidated companies.

This change resulted in a decrease of ¥1,198,018 thousand (US\$10,199 thousand) to cost of sales, an increase of the same amount to selling, general and administrative expenses; however, operating income, income before income taxes and minority interests were not affected.

The changes did not have any effect on segment information.

**(t) Comparatives**

Certain accounts in consolidated financial statements for the year ended March 31, 2006 have been reclassified to conform to the 2007 presentation.

## **2. Basis of Translating Financial Statements**

The consolidated financial statements presented herein are expressed in yen and, solely for the convenience of the reader, have been translated into U.S. dollar amounts at the rate of ¥118.09 =U.S.\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 2007. This translation should not be construed as a representation that the amounts shown could be converted into U.S. dollars at such date.

## **3. New Accounting Standards**

The Company and its domestic subsidiaries have adopted new accounting standards for the year ended March 31, 2007 and 2006 as follows:

### **(a) Accounting standard for presentation of net assets in the balance sheet**

Effective the year ended March 31, 2007, the Company adopted “Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Accounting Standards Board of Japan Statement No. 5 issued on December 9, 2005) and “Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Accounting Standards Board of Japan Guidance No.8 issued on December 9, 2005).

For the year ended March 31, 2007, the amount of shareholders’ equity would have been ¥30,228,827 thousand (US\$255,981 thousand), if the previous year’s presentation was applied.

“Net assets” in the balance sheets for this year are presented according to the revision of “Regulations Concerning the Terminology, Form and Presentation Methods of Consolidated Financial Statements” dated on April 25, 2006.

### **(b) Accounting standard for directors’ bonus**

The Company adopted “Accounting Standard for Directors’ Bonus”(Accounting Standards Board of Japan Statement No.4 issued on November 29,2005).The effect of the adoption of this new accounting standard on operating income and income before income taxes was ¥55,250 thousand(US\$468 thousand).

### **(c) Accounting standard for retirement benefits for directors and corporate auditors.**

The Company abolished its director and corporate auditor retirement benefits system through a decision made at its annual shareholders’ meeting held in March 2005 and its significant subsidiaries in March 2006. Prior to April 1, 2006, the retirement benefits for directors and corporate auditors of the Company and certain subsidiaries were charged to expenses at the time of the retirement. The Company adopted “Accounting Standard for Directors’ Bonus” (Accounting Standards Board of Japan Statement No.4 issued on November 29, 2005). Effective from the year ended March 31, 2007, an allowance for retirement benefits for directors and corporate auditors is provided based on the Company’s pertinent rules at the estimated amount that would be required had all directors and corporate auditors retired at the balance sheet date.

Due to this change, ¥440,357 thousand(US\$3,729 thousand),which represents the retirement benefits for service prior to April 1,2006 is recorded as other expenses. As a result, income before income taxes decreased by ¥440,357 thousand (US\$3,729 thousand) compared with what would have been reported using the previous method.

### **(d) Accounting standard for business combination and business separation**

Effective the year ended March 31, 2007, the Company adopted “Accounting Standard for Business Combination” (issued by the Business Accounting Council on October 31, 2003), “Accounting Standard Board for Business Separation” (Accounting Standards Board of Japan Statement No. 7 issued on December 27, 2005) and “Guidance on Accounting Standard for Business Combination and Business Separation” (Accounting Standards Board of Japan Guidance No.10 issued on December 27, 2005).

**(e)Accounting standard for Impairment of Fixed Assets**

A new accounting standard “Impairment of Fixed Assets” was issued in August 2002 and is effective for fiscal years beginning on or after April 1,2005. The new standard requires that tangible and intangible fixed assets be carried at cost less depreciation, and be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Companies would be required to recognize an impairment loss in their income statement if certain indicators of asset impairment exist and the book value of an asset exceeds the undiscounted sum of future cash flows of the asset.

The adoption of this new accounting standard did not have any effect on the Company’s consolidated financial statements for the year ended March 31, 2006.

#### 4. Investment Securities

Information regarding marketable securities classified as available-for-sale securities with market value at March 31, 2007 and 2006 is summarized as follows:

	Thousands of yen					
	2007			2006		
	Original Cost	Carrying Amount (Market Value)	Unrealized Gain(Loss)	Original Cost	Carrying Amount (Market Value)	Unrealized Gain(Loss)
Securities whose carrying amount (market value) exceeds their original costs:						
Equity securities	¥1,267,549	¥3,220,754	¥1,953,205	¥ 1,312,364	¥ 3,644,805	¥ 2,332,441
Debt securities						
Government bonds	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
Other	18,676	20,743	2,067	18,676	20,995	2,319
Subtotal	1,286,225	3,241,497	1,955,272	1,331,040	3,665,800	2,334,760
Securities whose original cost exceeds carrying amount (market value):						
Equity securities	205,347	181,747	(23,600)	106,374	105,258	(1,116)
Debt securities						
Government bonds	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
Other	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	205,347	181,747	(23,600)	106,374	105,258	(1,116)
Total	¥1,491,572	¥3,423,244	¥1,931,672	¥ 1,437,414	¥ 3,771,058	¥ 2,333,644

	Thousands of U.S. dollars		
	2007		
	Original Cost	Carrying Amount (Market Value)	Unrealized Gain(Loss)
Securities whose carrying amount (market value) exceeds their original costs:			
Equity securities	\$ 10,734	\$ 27,273	\$ 16,539
Debt securities			
Government bonds	—	—	—
Corporate bonds	—	—	—
Other	158	176	18
Subtotal	10,892	27,449	16,557
Securities whose original cost exceeds carrying amount (market value):			
Equity securities	1,739	1,539	(200)
Debt securities			
Government bonds	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other	—	—	—
Subtotal	1,739	1,539	(200)
Total	\$ 12,631	\$ 28,988	\$ 16,357

Proceeds from sales of securities classified as available-for-sale securities totaled ¥1,039 thousand (US\$9 thousand) and ¥411,342 thousand for the year ended March 31, 2007 and 2006, respectively, with gross realized gain of ¥815 thousand (US\$7 thousand) for the year ended March 31, 2007, and gross realized gain of ¥302,969 thousand for the year ended March 31, 2006.

Securities recorded at cost at March 31, 2007 and 2006 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2007	2006	2007
Other securities:			
Non-marketable equity securities (except for equity securities listed on the over-the-counter market)	¥ 422,303	¥ 407,061	\$ 3,576
Total	¥ 422,303	¥ 407,061	\$ 3,576

#### 5. Short-term Bank Loans, Long-term Bank Loans and Other Long-term Liability with Interest

Short-term loans from banks at average interest rate of 1.36% amounted to ¥2,330,800 thousand (US\$19,737 thousand) and ¥2,561,126 thousand at March 31, 2007 and 2006, respectively.

Long-term bank loans and deposits received classified as other long-term liabilities with interest at March 31, 2007 and 2006 consisted of the following:

	Thousands of yen		Thousands of U.S. dollars
	2007	2006	2007
Loans, principally from banks, maturing in installments through 2012 with average interest rate 1.16%	¥ 3,528,268	¥ 3,455,408	\$ 29,878
Less current portion with average interest rate 1.16%	(294,280)	(126,580)	(2,492)
Net loans	3,233,988	3,328,828	27,386
Deposits received with average interest rate 3.01%	2,832,540	2,913,696	23,986
Total of long-term bank loans and deposits received with interest	¥ 6,066,528	¥ 6,242,524	\$ 51,372

The aggregate annual maturities of long-term bank loans subsequent to March 31, 2007 are summarized as follows:

Year ending March 31,	Loans		Other long-term liabilities	
	Thousands of yen	Thousands of U.S. dollars	Thousands of yen	Thousands of U.S. dollars
2008	¥ 294,280	\$ 2,492	¥ —	\$ —
2009	2,361,297	19,996	—	—
2010	136,826	1,159	—	—
2011	720,826	6,104	—	—
2012	15,000	127	—	—

## 6. Bonds

Bonds at March 31, 2007 and 2006 consisted of the following:

	Thousands of yen		Thousands of U.S. dollars
	2007	2006	2007
Unsecured straight bond, issued on May 23, 2003, due May 23, 2006 with interest rate 1.15%	¥ -	2,000,000	\$ -
Unsecured straight bond, issued on September 25, 2003, due September 25, 2006 with interest rate 0.80%	-	500,000	-
Unsecured straight bond, issued on September 25, 2003, due September 25, 2006 with interest rate 0.86%	-	300,000	-
Unsecured straight bond, issued on September 25, 2003, due September 25, 2006 with interest rate 0.86%	-	300,000	-
Unsecured straight bond, issued on September 25, 2003, due September 25, 2006 with interest rate 0.86%	-	300,000	-
Unsecured straight bond, issued on October 11, 2006, due October 9, 2009 with interest rate 1.29%	1,600,000	-	13,549
Unsecured straight bond, issued on October 10, 2006, due October 9, 2009 with interest rate 1.25%	1,200,000	-	10,162
Unsecured straight bond, issued on October 12, 2006, due October 9, 2009 with interest rate 1.15%	500,000	-	4,235
Unsecured straight bond, issued on October 12, 2006, due October 9, 2009 with interest rate 1.08%	300,000	-	2,540
Unsecured straight bond, issued on October 10, 2006, due October 9, 2009 with interest rate 1.34%	300,000	-	2,540
Total	¥ 3,900,000	¥ 3,400,000	\$ 33,026
Less current portion	-	3,400,000	-
	¥ 3,900,000	¥ -	\$ 33,026

The aggregate annual maturities of bonds subsequent to March 31, 2007 are summarized as follows:

Year ending March 31,	Thousands of yen		Thousands of U.S. dollars
2008	¥ -		\$ -
2009	-		-
2010	3,900,000		33,026

## 7. Income Taxes

The tax effect of temporary differences that give rise to significant portion of the deferred tax assets and deferred tax liabilities at March 31, 2007 and 2006 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets:			
Operating loss carry forward for tax Purposes	¥1,073,234	¥ 1,682,037	\$9,088
Accrued employees' retirement and severance benefits	3,591,783	3,430,347	30,416
Unrealized loss on available-for-sale securities	9,121	237	77
Other	1,014,497	857,354	8,591
Gross deferred tax assets	5,688,635	5,969,975	48,172
Valuation allowance	(1,294,428)	(1,479,304)	(10,961)
Total deferred tax assets	¥ 4,394,207	¥ 4,490,671	\$ 37,211
Deferred tax liabilities:			
Land revaluation	(114,800)	(114,800)	(972)
Unrealized gain on available-for-sale securities	(776,149)	(929,488)	(6,573)
Other	(58,131)	(82,607)	(492)
Gross deferred tax liabilities	(949,080)	(1,126,895)	(8,037)
Net deferred tax assets	¥ 3,445,127	¥ 3,363,776	\$ 29,174

The reconciliation from the Japanese statutory tax rate to the actual tax rate applicable to the Company for the year ended March 31, 2007 and 2006 were as follows:

	2007		2006	
Japanese statutory tax rate	40.0	%	40.0	%
Permanent differences, including entertainment etc.	37.5		14.2	
Permanent differences, including dividend income	(26.1)		(22.6)	
Inhabitant taxes per capita etc.	5.0		6.0	
Valuation allowance	3.5		(26.6)	
Other	10.6		24.5	
Actual tax rate	70.5	%	35.5	%

## 8. Shareholders' equity

The Corporation Law of Japan (the "Law") provides that an amount equal to at least 10% of the amount to be disbursed as distributions of earnings be appropriated to the legal reserve until the sum of the reserve and the additional paid-in capital account, which is included in Capital Surplus in consolidated balance sheet, equals 25% of the common stock account. The Law provides that neither additional paid-in capital nor the legal reserve in available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock upon approval by the Board of Directors. Accordingly, the Law provides that if the total amount of additional paid-in capital and the legal reserve exceeds 25% of the amount of common stock, the excess may be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders.

## 9. Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliated at March 31, 2007 and 2006 amounted to ¥916,101 thousand (US\$7,758 thousand) and ¥737,369 thousand, respectively, and accounted for principally by the equity method.

## 10. Pledged and Deposited Assets

A summary of assets pledged as collateral for short-term loans from bank in the amount of to ¥0 (US\$ 0) and ¥39,822 thousand and long-term debt in the amount of to ¥1,197,124 thousand (US\$10,137 thousand) and ¥1,133,124 thousand at March 31, 2007 and 2006, respectively, is presented below:

	Thousands of yen		Thousands of U.S. dollars
	2007	2006	2007
Buildings and structures	¥ 848,906	¥ 885,821	\$ 7,188
Machinery and equipment	1,367,482	1,444,321	11,580
Land	3,100,907	3,100,907	26,259
	¥ 5,317,295	¥ 5,431,049	\$ 45,027

## 11. Surplus from Land Revaluation

Based on the Law Land Revaluation promulgated on March 31, 1998, the Company revalued its land used for business purposes as of March 31, 2000 in accordance with the revaluation method as stated in Article 3-3 of the Law Concerning Land Revaluation.

The value of land is based on the official notice prices calculated as directed by public notification of the Commissioner of the National Tax Administration and as provided for in the Law Concerning Public Notification of Land Prices, as stipulated in Article 2-4 of the Ordinance Implementing the Law Concerning Land Revaluation (Government Ordinance No.119, promulgated March 3, 1998), after making reasonable adjustments.

The differences between the revalued carrying amount and the fair value as of March 31, 2007 and 2006 of lands revalued pursuant to the Article 10 of the law were ¥2,096,222 thousand (US\$17,751 thousand) and ¥2,249,140 thousand, respectively.

The amount of tax effect on the revaluation differences is included in the deferred tax liabilities. The revaluation difference less this tax liability is reported as surplus from land revaluation in shareholders' equity.

## 12. Selling General and Administrative Expenses

Major expenses included in selling, general and administrative expenses for the year ended March 31, 2007 and 2006 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2007	2006	2007
Salaries	¥ 6,047,400	¥ 6,036,059	\$ 51,193
Packing and transportation costs	1,830,681	1,796,007	15,502
Employees' bonuses	1,001,421	1,054,723	8,480

Research and development expenses included in general and administrative expenses and manufacturing cost for the year ended March 31, 2007 and 2006 amounted to ¥391,604 thousand (US\$3,316 thousand) and ¥388,751 thousand, respectively.

## 13. Other Income

Other income included gain on sale of land of ¥181,096 thousand (US\$1,534 thousand) in 2007 and sale of machinery and equipment of ¥2,923 thousand in 2006.

#### 14. Other expenses

For the year ended March 31, 2007, other expenses included loss on abandonment and sale of tools, furniture and fixture of ¥32,190 thousand (US\$273 thousand), and ¥5,863 thousand (US\$50 thousand), loss on abandonment of buildings of ¥8,859 thousand (US\$75 thousand), and loss on abandonment of machinery and equipment of ¥9,027 thousand (US\$76 thousand), respectively.

Litigation expenses, including attorney's fees, represent the cost of protecting certain of the Company's intellectual property rights.

For the year ended March 31, 2006, other expenses included loss on abandonment and sale of buildings of ¥1,726 thousand, and ¥2,279 thousand and loss on abandonment of machinery and equipment of ¥14,253 thousand, of tools, furniture and fixture of ¥7,252 thousand, and loss on sale of land of ¥36,959 thousand, respectively.

Litigation expenses, including attorney's fees, represent the cost of protecting certain of the Company's intellectual property rights.

#### 15. Supplemental information of Consolidated Statements of Changes in Net Assets

##### (a) Type and number of shares outstanding and treasury stock

	Number of Shares (thousand)			March 31, 2007
	March 31, 2006	increased	decreased	
Type of shares outstanding				
Common stock	78,219	-	-	78,219
Total	78,219	-	-	78,219
Type of treasury stock				
Common stock	340	15	1	354
Total	340	15	1	354

##### (b) Matters related to dividends

Approvals by ordinary general meeting of shareholders held on June 29, 2006 are as follows;

###### Dividends on Common stock

Total amount of dividends	¥390,548 thousand (US\$3,307 thousand)
Dividends per share	¥5 (US\$0.04)
Record date	March 31, 2006
Effective date	June 29, 2006

Dividends whose record date is attributable to the accounting period ended March 31, 2007 but to be effective after the said accounting period. The Company resolved approval at the general meeting of shareholders to be held on June 28, 2007 as follows;

###### Dividends on Common stock

Total amount of dividends	¥390,477 thousand (US\$3,307 thousand)
Funds for dividends	Retained earnings
Dividends per share	¥5 (US\$0.04)
Record date	March 31, 2007
Effective date	June 29, 2007

## 16. Supplemental Cash Flow Information

A reconciliation of cash and cash equivalents as of March 31, 2007 and 2006 to accounts and amounts in the accompanying balance sheets was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2007	2006	2007
Cash and time deposits	¥ 12,660,791	¥ 12,234,462	\$ 107,213
Time deposits with maturity in excess of three months	(857,501)	(918,826)	(7,261)
Cash and cash equivalents	¥ 11,803,290	¥ 11,315,636	\$ 99,952

## 17. Leases

Finance leases, except for those which transfer ownership of the property to the lessees, are accounted for similar to operating leases.

- ① A summary of pro forma amounts (inclusive of imputed interest expense portion) of acquisition cost, accumulated depreciation and net book value at March 31, 2007 and 2006 of mainly leased tools, furniture and fixtures was, if they had been capitalized, as follows:

	Thousands of yen		Thousands of U.S. dollars
	2007	2006	2007
Acquisition cost	¥ 1,308,766	¥ 1,606,346	\$ 11,083
Accumulated depreciation	865,837	1,050,773	7,332
Net book value	¥ 442,929	¥ 555,573	\$ 3,751

- ② A summary of future minimum lease payments (inclusive of imputed interest expense portion), required under non-cancelable operating lease at March 31, 2007 and 2006 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2007	2006	2007
Paid in one year or less	¥ 173,907	¥ 229,969	\$ 1,473
Paid after one year	269,022	325,604	2,278
Total	¥ 442,929	¥ 555,573	\$ 3,751

- ③ Lease payments and pro forma depreciation for the year ended March 31, 2007 and 2006 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2007	2006	2007
Lease fees paid	¥ 233,229	¥ 247,871	\$ 1,975
Depreciation expense	233,229	247,871	1,975

- ④ Depreciation charges are computed using the straight-line method over lease terms assuming no residual value.

## 18. Employees' Retirement and Severance Benefits

The Company and certain of its domestic subsidiaries have defined benefit plans covering substantially all of its employees. The plan includes the tax-qualified funded pension plan. Under the plan, employees are entitled to lump sum or pension of severance or retirement benefits, determined by points accumulated monthly based on employees' contributions, length of service and the conditions under which the termination occurs.

The plans' funded status and amount recognized in the accompanying consolidated balance sheets at March 31, 2007 and 2006 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2007	2006	2007
Project benefit obligations	¥ (15,983,774)	¥ (16,504,400)	\$ (135,352)
Plan assets at fair value	2,844,480	2,743,504	24,087
Projected benefit obligation in excess of plan assets	(13,139,294)	(13,310,896)	(111,265)
Unrecognized transitional obligation	2,496,327	2,823,281	21,139
Unrecognized actuarial loss	1,527,021	1,800,233	12,931
Accrued employees' retirement and Severance benefits	¥ (9,115,946)	¥ (8,687,382)	\$ (77,195)

The components of net periodic cost of employees' retirement and severance benefits for the year ended March 31, 2007 and 2006 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2007	2006	2007
Service cost	¥ 931,068	¥ 814,754	\$ 7,884
Interest cost	284,544	275,082	2,410
Expected return on plan assets	(66,060)	(51,827)	(559)
Amortization of actuarial loss	166,565	164,627	1,410
Amortization of transitional obligation	313,698	313,698	2,657
Total	¥ 1,629,815	¥ 1,516,334	\$ 13,802

The actuarial assumptions used in accounting for the pension plans for the year ended March 31, 2007 and 2006 were as follows:

	2007	2006
Discount rate	1.9%	1.9%
Expected return on plan assets	2.5%	2.2%
Amortization period of actuarial gain/loss	15years	15years
Amortization period of transitional obligation	15years	15years

## **19. Commitment and Contingent Liabilities**

As of March 31, 2007 and 2006, notes receivable discounted with banks amounted to ¥33,373 thousand (US\$283 thousand) and ¥89,481 thousand, respectively.

As of March 31, 2007 and 2006, the Company has entered into loan commitment agreements amounting to ¥7,000,000 thousand (\$59,277 thousand) and ¥5,000,000 thousand, with banks for timely financing. As of March 31, 2007 and 2006, the unused balances under these credit facilities amounted to ¥5,900,000 thousand (\$49,962 thousand) and ¥4,400,000 thousand, respectively.

## **20. Derivatives**

The Company has entered into forward exchange contracts for the purpose of hedging its exposure to adverse fluctuations in foreign exchange rates related to its trade receivables, payable and forecasted transaction denominated in foreign currencies. The Company has entered into interest rate swap agreement to reduce its exposure to future adverse fluctuations in interest rate to its debt instruments. It is the Company's and its subsidiaries' policy not to enter into speculative derivative transactions.

As the Company enters into contracts with domestic banks with high credit ratings, the Company does not anticipate any risk of nonperformance by these counterparties.

In addition, the execution and control of derivative transactions are carried out by the finance division based on the approval by authorized personal in accordance with the Company's internal control policy in terms of the nature and maximum amount of transactions and authorization.

In the year ended March 31, 2007, the Company adopted the hedge accounting for all derivative instruments and omitted disclosure regarding their notional amounts and estimated fair value outstanding at March 31, 2007 in accordance with generally accepted accounting principles in Japan.

## 21. Segment Information

Operations by business group and geographic area are summarized as follows:

	Thousands of yen		Thousands of U.S. dollars
	March 31,2007	March 31,2006	March 31,2007
<b>(a) Industry Segments</b>			
<b>Sales:</b>			
Lighting Sector	¥ 40,211,558	¥ 40,438,264	\$ 340,516
Applied Optics Sector	28,589,482	29,112,473	242,099
Other Sector	2,188,459	2,193,192	18,532
	<u>70,989,499</u>	<u>71,743,929</u>	<u>601,147</u>
Corporate and eliminations	—	—	—
	<u>¥ 70,989,499</u>	<u>¥ 71,743,929</u>	<u>\$ 601,147</u>
<b>Operating cost:</b>			
Lighting Sector	¥ 38,243,076	¥ 38,837,209	\$ 323,847
Applied Optics Sector	25,432,945	26,707,858	215,369
Other Sector	2,438,961	2,290,779	20,653
	<u>66,114,982</u>	<u>67,835,846</u>	<u>559,869</u>
Corporate and eliminations	2,192,732	1,995,726	18,568
	<u>¥ 68,307,714</u>	<u>¥ 69,831,572</u>	<u>\$ 578,437</u>
<b>Operating income:</b>			
Lighting Sector	¥ 1,968,482	¥ 1,601,055	\$ 16,669
Applied Optics Sector	3,156,537	2,404,615	26,730
Other Sector	(250,502)	(97,587)	(2,121)
	<u>4,874,517</u>	<u>3,908,083</u>	<u>41,278</u>
Corporate and eliminations	(2,192,732)	(1,995,726)	(18,568)
	<u>¥ 2,681,785</u>	<u>¥ 1,912,357</u>	<u>\$ 22,710</u>
<b>Assets:</b>			
Lighting Sector	¥ 30,640,465	¥ 29,963,111	\$ 259,467
Applied Optics Sector	27,512,483	26,413,879	232,979
Other Sector	2,544,209	2,900,285	21,545
	<u>60,697,157</u>	<u>59,277,275</u>	<u>513,991</u>
Corporate and eliminations	17,417,826	18,718,966	147,496
	<u>¥ 78,114,983</u>	<u>¥ 77,996,241</u>	<u>\$ 661,487</u>
<b>Depreciation:</b>			
Lighting Sector	¥ 1,153,645	¥ 1,169,448	\$ 9,769
Applied Optics Sector	595,759	615,504	5,045
Other Sector	24,239	20,149	205
	<u>1,773,643</u>	<u>1,805,101</u>	<u>15,019</u>
Corporate and eliminations	35,065	35,318	297
	<u>¥ 1,808,708</u>	<u>¥ 1,840,419</u>	<u>\$ 15,316</u>
<b>Capital expenditures:</b>			
Lighting Sector	¥ 1,263,192	¥ 1,283,922	\$ 10,697
Applied Optics Sector	221,409	305,459	1,875
Other Sector	45,516	13,263	386
	<u>1,530,117</u>	<u>1,602,644</u>	<u>12,958</u>
Corporate and eliminations	10,987	40,944	93
	<u>¥ 1,541,104</u>	<u>¥ 1,643,588</u>	<u>\$ 13,051</u>

Industry segments include Lighting Sector, Applied Optics Sector and Others.

- Industry segments are defined by similarity of products.
- The main products in each industry segment include:
  - Lighting Sector — HID lamps and Luminaires/Incandescent lamps and Luminaires/Fluorescent lamps and Luminaires
  - Applied Optics Sector — Information Display Systems/UV Curing Systems/EB Radiation Systems
  - Other Sector — Shop & Home Facilities and Agency Services for EYE Group
- Unallocatable operating costs included in "Corporate and eliminations" are incurred mainly in corporate division of the Company.
- Assets included in "Corporate and eliminations" are mainly composed of "Cash and time deposits", "Marketable securities", "Investment securities" and assets used in the corporate decision in the company.

5. Accounting standard for directors' bonus

Effective from year ended March 31, 2007, the Company adopted "Accounting Standard for Directors' Bonus" (Accounting Standards Board of Japan "ASBJ" Statement No.4 issued by the ASBJ on November 29, 2005). As a result, operating cost of "Lighting Sector" has increased by 13,250 thousand (US\$112 thousand), operating cost of "Applied Optics Sector" has increased by 9,800 thousand (US\$83 thousand), operating cost of "Other Sector" has increased by 2,200 thousand (US\$19 thousand), and operating cost of "Corporate and eliminations" has increased by 30,000 thousand (US\$254 thousand) respectively.

	Thousands of yen		Thousands of U.S. dollars
	March 31,2007	March 31,2006	March 31,2007
<b>(b) Geographic Segments</b>			
<b>Sales:</b>			
Japan	¥ 65,699,479	¥ 67,137,317	\$ 556,351
North America	4,945,422	4,402,208	41,878
Asia	1,089,317	907,850	9,224
Europe	187,119	161,984	1,585
	<u>71,921,337</u>	<u>72,609,359</u>	<u>609,038</u>
Corporate and eliminations	<u>(931,838)</u>	<u>(865,430)</u>	<u>(7,891)</u>
	<u>¥ 70,989,499</u>	<u>¥ 71,743,929</u>	<u>\$ 601,147</u>
<b>Operating cost</b>			
Japan	¥ 61,296,614	¥ 63,364,534	\$ 519,067
North America	4,415,990	4,116,128	37,395
Asia	1,035,063	957,366	8,765
Europe	202,218	177,437	1,712
	<u>66,949,885</u>	<u>68,615,465</u>	<u>566,939</u>
Corporate and eliminations	<u>1,357,829</u>	<u>1,216,107</u>	<u>11,498</u>
	<u>¥ 68,307,714</u>	<u>¥ 69,831,572</u>	<u>\$ 578,437</u>
<b>Operating income</b>			
Japan	¥ 4,402,865	¥ 3,772,783	\$ 37,284
North America	529,432	286,080	4,483
Asia	54,254	(49,516)	459
Europe	(15,099)	(15,453)	(127)
	<u>4,971,452</u>	<u>3,993,894</u>	<u>42,099</u>
Corporate and eliminations	<u>(2,289,667)</u>	<u>(2,081,537)</u>	<u>(19,389)</u>
	<u>¥ 2,681,785</u>	<u>¥ 1,912,357</u>	<u>\$ 22,710</u>
<b>Assets:</b>			
Japan	¥ 55,952,188	¥ 55,562,829	\$ 473,810
North America	3,564,286	2,455,547	30,183
Asia	1,527,194	1,523,252	12,932
Europe	318,097	305,794	2,694
	<u>61,361,765</u>	<u>59,847,422</u>	<u>519,619</u>
Corporate assets and eliminations	<u>16,753,218</u>	<u>18,148,819</u>	<u>141,868</u>
	<u>¥ 78,114,983</u>	<u>¥ 77,996,241</u>	<u>\$ 661,487</u>

Geographic segments are defined by geographical proximity.

1. Each region consists principally of the countries as follows:

North America-U.S.A

Asia-China, Singapore and Malaysia

Europe-the United Kingdom

2. Unallocatable operating costs included in "Corporate and eliminations" are incurred mainly in corporate division of the Company.

3. Assets included in "Corporate and eliminations" are mainly composed of "Cash and time deposits", "Marketable securities", "Investment securities" and assets used in the corporate division in the company.

4. Accounting standard for directors' bonus

Effective from year ended March 31, 2007, the Company adopted "Accounting Standard for Directors' Bonus" (Accounting Standards Board of Japan "ASBJ" Statement No.4 issued by the ASBJ on November 29, 2005). As a result, operating cost of "Japan" has increased by 25,250 thousand (US\$214 thousand), and operating cost of "Corporate assets and eliminations" has increased by 30,000 thousand (US\$254 thousand) respectively.

	Thousands of yen		Thousands of U.S. dollars
	March 31,2007	March 31,2006	March 31,2007
(c) Overseas sales			
Sales:			
To North America	¥ 5,346,362	¥ 4,676,005	\$ 45,274
To Asia	1,373,064	1,235,749	11,627
To Europe	494,394	498,558	4,187
To other	436,392	497,571	3,695
	¥ <u>7,650,212</u>	¥ <u>6,907,883</u>	\$ <u>64,783</u>
Ratio to consolidated net sales:			
To North America	7.5 %	6.5 %	
To Asia	1.9	1.7	
To Europe	0.7	0.7	
To other	0.6	0.7	
	<u>10.7 %</u>	<u>9.6 %</u>	

1. Each region consists principally of the following countries:

- Norch America-U.S.A
- Asia-China,Singapore and Malaysia
- Europe-the United Kingdom
- Other-Australia

2. Overseas sales include the export sales of the parent company and domestic subsidiaries and the domestic sales of the subsidiaries abroad.

## 22. Amounts Per Share

	Yen		U.S. dollars
	2007	2006	2007
Net income	¥ 6.10	¥ 9.32	\$ 0.05
Net assets	388.22	388.14	3.29

A basis of the computation of net income per share for the year ended March 31, 2007 and 2006 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2007	2006	2007
Net income per share			
Net income	¥ 475,030	¥ 745,106	\$ 4,023
Amount of unrelated to normal shareholders	-	19,859	-
Net	¥ 475,030	¥ 725,247	\$ 4,023
Average numbers of shares for the period (share)	77,872,394	77,812,802	77,872,394

## 23. Business Combination

### This connection fiscal year (March 31, 2007)

(The business under the common rule)

1. Name of combined company, the legal form of the combination, content of the combined business, principal reasons for the business combination, and overview of the business combination,

(1) Name of combined company and content of the combined business

a. Iwasaki Information Systems Co., Ltd

Production and sale of telecommunications machine appliance device, parts and accessories and facilities construction

b. Iwasaki Environmental Facilities Co., Ltd

Production, sale and processing of aluminum, stainless steel, a housing part made by iron and steel and construction materials

(2) The legal form of the combination

Merger (Iwasaki Information Systems Co., Ltd is a surviving company, and Iwasaki Environmental Facilities Co., Ltd is an extinction company.)

(3) The name of the company after combination

Iwasaki Information Systems Co., Ltd

(4) Principal reasons of the combination and overview of the business combination

For the purpose of utilizing the availability of the financial resources of groups, improving operational efficiency, and raising a corporate value, Iwasaki Information Systems Co., Ltd merged Iwasaki Environmental Facilities Co., Ltd.

(5) Date of combination

February 1, 2007

2. Overview of accounts processing

This combination is based on "Accounting Standard for Business Combination" (issued by the Business Accounting Council on October 31, 2003) and "Guidance on Accounting Standard for Business Combination and Business Separation" (Accounting Standard Board of Japan Guidance No.10 issued on December 27, 2005). It falls under business under the common rule.

## **24. Significant Subsequent Events**

### **This connection fiscal year (March 31, 2007)**

#### **(a) Combination of consolidated subsidiary**

1. Name of combined company, the legal form of the combination, content of the combined business, principal reasons for the business combination, and overview of the business combination,

(1) Name of combined company and content of the combined business

a. IWASAKI ELECTRIC CO., Ltd

Production of various sources of light and lighting equipments, sale and facilities construction.

b. Iwasaki Information Systems Co., Ltd

Production and sale of telecommunications machine appliance device, parts and accessories and facilities construction.

(2) The legal form of the combination

Merger (IWASAKI ELECTRIC CO., Ltd is a surviving company, and Iwasaki Information Systems Co., Ltd is an extinction company.)

(3) The name of the company after combination

IWASAKI ELECTRIC CO., Ltd.

(4) Principal reasons of the combination and overview of the business combination

For the purpose of utilizing the availability of the financial resources of groups, improving operational efficiency, and raising a corporate value, IWASAKI ELECTRIC CO., Ltd merged Iwasaki Information Systems Co., Ltd.

(5) Date of combination

April 1, 2007

2. Overview of accounts processing

This combination is based on "Accounting Standard for Business Combination" (issued by the Business Accounting Council on October 31, 2003) and "Guidance on Accounting Standard for Business Combination and Business Separation" (Accounting Standard Board of Japan Guidance No.10 issued on December 27, 2005). It falls under business under the common rule.

3. The matter about the additional acquisition of subsidiary stocks

The Company acquired treasury stocks for ¥9,000 thousand (US\$76 thousand) from Minority stockholders for the purpose of making Iwasaki Information Systems Co., Ltd the 100% subsidiary before this merger. As a result, negative goodwill which amounted to ¥491,989 thousand (US\$4,166 thousand) occurred.

Negative goodwill is amortized evenly over 5 years, however it is amortized in the year when it is immaterial.

#### **(b) Acquisition of Treasury Stock**

On May 8, 2007, the Board of Directors of the Company approved a plan of acquisition up to 4,000 thousand shares of the Company's common stock at a cost of up to ¥1,000,000 thousand (US\$8,468 thousand) for the period from May 10, 2007 to March 31, 2008.

## Report of Independent Auditors

The Board of Directors  
IWASAKI ELECTRIC CO., Ltd.

We have audited the accompanying consolidated balance sheets of IWASAKI ELECTRIC CO., Ltd. and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of IWASAKI ELECTRIC CO., Ltd. and consolidated subsidiaries at March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

(Supplemental Information)

1. As described in Note 1(I), prior to April 1 2006, the retirement benefits for directors and corporate auditors of the Company and consolidated subsidiaries were charged to expense at the time of the retirement. Effective from the year ended March 31, 2007, an allowance for retirement benefits for directors and corporate auditors is provided based on the Company's pertinent rules at the estimated amount that would be required had all directors and corporate auditors retired at the balance sheet date.
2. As described in Note 24 (a), the Company merged its subsidiary Iwasaki Information Systems Co., Ltd on April 1, 2007 into the Company.
3. As described in Note 24 (b), the Company decided the acquisition of treasury stock in the board of directors.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 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 2 to the consolidated financial statements.

Ernst & Young ShinNihon

June 28, 2007



## BOARD OF DIRECTORS AND CORPORATE DATA

Chairman  
Akio Tazaki  
Representative Director

IWASAKI ELECTRIC CO., LTD.  
Date of Establishment: August 18, 1944

President  
Takao Kumasaka  
Representative Director

12-4, Shiba 3-chome, Minato-ku,  
Tokyo 105-0014, Japan  
Phone: (03)3452-5351  
Facsimile: (03) 3769-8446  
<http://www.eye.co.jp/>

Senior Managing Director  
Tsuneo Baba  
Applied Optics Business Operations

Capital: ¥8,640 million

Directors  
Noriaki Yamauchi  
Lighting Business Operations

Common Stock  
Authorized: 239,000,000 shares  
Issued: 78,219,507 Shares

Bunya Watanabe  
Light Source Business Operations  
Manufacturing Division

Number of Shareholders: 9,197

Toshifumi Sato  
Sales & Marketing Division  
Public Works Sales Department

Zentaro Takahashi  
Technology, Quality Operations  
Intellectual Property Department

Hiroshi Kawai  
R&D Division  
New Business Development Department  
Corporate Advanced Technology Center

Hiroyuki Fujita  
Sales & Marketing Division  
West Japan Sales Department

Syunichi Sasaki  
Manufacturing Division  
HID Lamp Department  
Light Source Development Department

Masuaki Atsumi  
International Business Operations  
Administrative Division  
Internal Auditing Department

Yoshihiro Shibata  
Sales & Marketing Division  
Applied Optics Sales Department

Corporate Auditors  
Wataru Nakayama  
Yoshiaki Iio

Auditors  
Hirokazu Hyoudo  
Ryohei Nakasu

(As of July 1, 2007)

Major Shareholders	% of Total
Mizuho Corporate Bank, Ltd	3.63
The Sumitomo Mitsui Banking Corp.	3.44
Japan Trustee Services Bank, Ltd.(Trust Account)	3.33
The Meiji Yasuda Life Insurance Company	3.23
Sompo Japan Insurance Inc.	2.53
State Street Bank and Trust Company	2.19
Iwasaki Electric Cooperative Association Stock Ownership Plan	2.03
Japan Trustee Services Bank, Ltd.(Trust Account4)	1.96
The Master Trust Bank of Japan, Ltd.(Trust Account)	1.96
The Dai-ichi Mutual Life Insurance Company	1.91

Stock Exchange Listings  
Tokyo Stock Exchange 1st Section

Transfer Agent and Registrar  
Mizuho Trust & Banking Co., Ltd  
2-1, Yaesu 1-chome,  
Chuo-ku, Tokyo 103-8670, Japan

Independent Certified Public Accountants  
Ernst & Young ShinNihon

# DIRECTORY

## Domestic Plants and Offices

### Head Office

12-4, Shiba 3-chome, Minato-ku,  
Tokyo 105-0014, Japan  
Phone: (03)3452-5351  
Facsimile: (03) 3769-8446

### International Business Division

8rd floor, Clair Oda Bldg. 1-2,  
Shiba 5-chome, Minato-ku,  
Tokyo 108-0014, Japan  
Phone: (03) 3454-1841  
Facsimile: (03) 3454-1974

### Manufacturing Division

Saitama Plant (Saitama Pref.)  
Ibaraki Plant (Ibaraki Pref.)

### Sales & Marketing Division (Tokyo)

### Branches:

East Japan Sales Department  
West Japan Sales Department  
Local Offices: 50 locations

### Corporate Advanced Technology Center (Saitama Pref.)

## Domestic Affiliates

### ●Manufacture

**EYE LIGHTING SYSTEMS CORPORATION**  
A joint venture with GE, established in 1973  
Manufacture of lighting luminaires,  
power sources, ballasts and circuits

### TAISEIDENKIKOGYO CO., LTD.

Established in 1961  
Manufacture and sales of luminaires and parts

### AISHIN CO., LTD.

Established in 1973  
Manufacture and sales of luminaires and  
electrical appliances

### KANTO IWASAKI CO., LTD.

Established in 1977  
Quartz tube lating, and manufacture of HID  
lamps

### CHICHIBU IWASAKI CO., LTD.

Established in 1985  
Manufacture of Halogen lamps,  
Thin film products, etc.

### KAN-ETSU IWASAKI CO., LTD.

Established in 1985  
Manufacture of high-pressure sodium lamp  
arc tubes and quartz tubes (cutthg)

### EYE ELECTRON BEAM CO., LTD.

Established in 1986  
Manufacture and sales of EB products,  
EB machine installation and maintenance  
services

### EYE THREE MFG. CO., LTD.

Established in 1988  
Manufacture and sales of light poles,  
stands and customized lighting luminaires

### YAMATO CO., LTD.

Established in 1990  
Assembly of FL luminaires for facilities,  
and press working

### ITO DENKI CO., LTD.

Acquired in 1997  
Manufacture of explosion proof luminaires

### ●Sales and Administration

**EYE GRAPHICS CO., LTD.**  
Established in 1977  
Sales of UV applied equipment and printing  
platemakers

### LIGHT CUBE CO., LTD.

Established in 1978  
Design, manufacture, sales and application  
of luminaires and allied products

### LIGHT FORCE CO., LTD.

Established in 1995  
Design, manufacture and sales of luminaires  
including for emergency exit sign and of  
components

### KINKI LIGHT CUBE CO., LTD.

Established in 1995  
Design, manufacture and sales of luminaires  
including for emergency exit sign and of  
ccomponents

### ITO DENKI HANBAI CO., LTD.

Established in 1999  
Sales of explosion proof luminaires

### IWASAKI ELECTRIC ENGINEERING SERVICE CO., LTD.

Established in 1994  
Maintenance & inspectionl, troubleshooting  
and remedy proposal of electric equipment

### TEITO DENKI CO., LTD.

Established in 1966  
Electrical work, and maintenance  
management of buildings and road facilities

### EYE ONE CO., LTD.

Established in 1987  
Service trade for the Iwasaki Group, such as  
insurance agency operations

### EYE TRADING CO., LTD.

Established in 1988  
Import of raw materials and materials. and  
export of products other than luminaires

### WEST LOGISTICS CO., LTD.

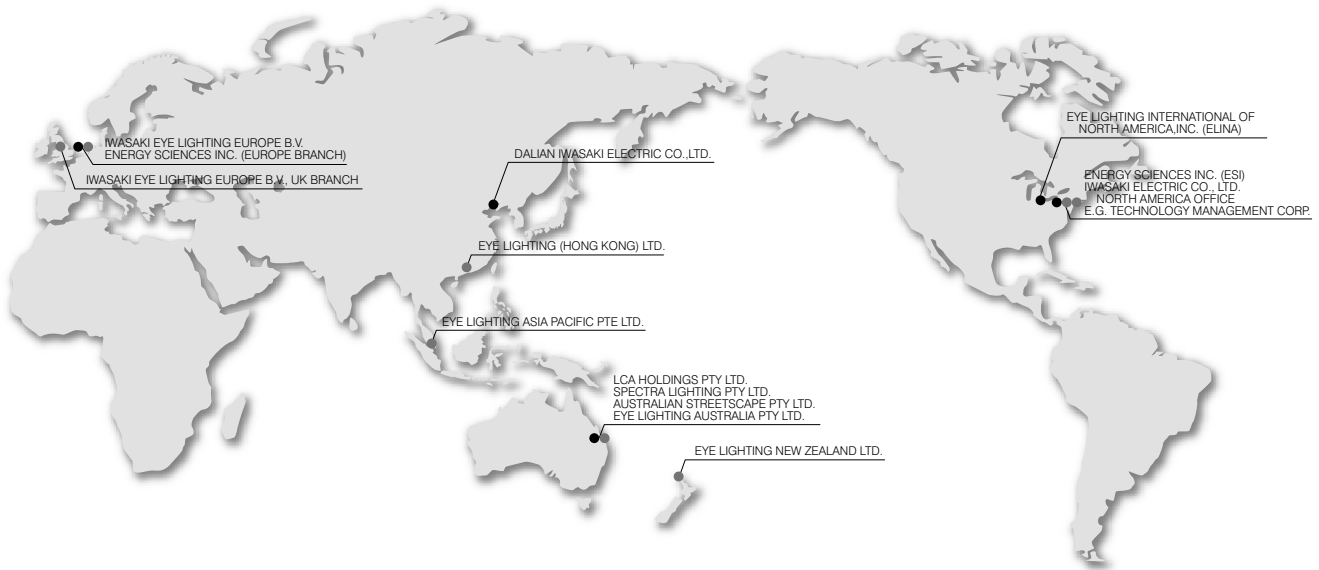
Established in 1996  
Autotruck carrier business and joint delivery

### EAST LOGISTICS CO., LTD.

Established in 1996  
Autotruck carrier business and Joint delivery

(As of July 31, 2007)

## GLOBAL NETWORK



### ●Manufacture

**ENERGY SCIENCES INC. (ESI)**  
 Acquired in 1988  
 42 Industrial Way, Wilmington, MA 01887, U.S.A.  
 Phone: (978) 694-9000  
 Facsimile: (978) 694-9046  
 Manufacture and Sales of EB & UV irradiation equipment and electric equipment

**ENERGY SCIENCES INC. (EUROPE BRANCH)**  
 Established in 2000  
 Nijverheidsweg Noord 131  
 NL-3812 PL Amersfoort The Netherlands  
 Phone: (33)422-7288  
 Facsimile: (33)422-7280  
 Import and distributor of electron-beam processors

**EYE LIGHTING INTERNATIONAL OF NORTH AMERICA, INC. (ELINA)**  
 Established in 1989  
 9150 Hendricks Road, Mentor, OHIO44060, U.S.A.  
 Phone: (440) 350-7000  
 Facsimile: (440) 350-7001  
 Manufacture and sales of HID lamp, arc tubes and outer bulbs

**DALIAN IWASAKI ELECTRIC CO., LTD.**  
 Established in 1995  
 Zheng Pong Industrial Area I-8-3, Dalian Development Zone, Dalian, P.R. China  
 Phone: (411) 8751-4186  
 Facsimile: (411) 8751-4189  
 Manufacture of HID lamps, stems and UV lamps

**SPECTRA LIGHTING PTY LTD.**  
 Acquired in 1999  
 15 Industrial Avenue Wacol QLD 4076, Australia  
 Phone: (7) 3335-3500  
 Facsimile: (7) 3335-3550  
 Manufacture and sales of luminaires

**AUSTRALIAN STREETSCAPE PTY LTD.**  
 Acquired in 1999  
 152 Musgrave Road Coopers Plains QLD 4108, Australia  
 Phone: (7) 3274-2183  
 Facsimile: (7) 3274-2189  
 Manufacture and sales of streetscape luminaires

### ●Sales and Administration

**E.G. TECHNOLOGY MANAGEMENT CORP.**  
 Established in 1992  
 42 Industrial Way, Wilmington, MA 01887, U.S.A.  
 Phone: 978(694) 9000  
 Facsimile: 978(694) 9069  
 Management of EG technology-related Patent

**EYE LIGHTING ASIA PACIFIC PTE. LTD.**  
 Established in 1988  
 21 Kaki Bukit Place, Eunos Techpark Singapore 416199, Singapore  
 Phone: 6742-3611  
 Facsimile: 6743-5202  
 Sales of lamps, Luminaires and electric equipment

**EYE LIGHTING (HONG KONG) LTD.**  
 A joint venture with Hosoda Trading Company, Established in 1992  
 Room 609, Silvercord Tower 2, 30 Canton Road, Tsimshatsui, Kowloon, Hong Kong  
 Phone: 2368-8782  
 Facsimile: 2481-2661  
 Sales of lamps, Luminaires and electric equipment

**LCA HOLDINGS PTY LTD.**  
 A joint venture with Marubeni Corporation, Established in 2000  
 151 Wellington Road, East Brisbane QLD4169, Australia  
 Phone: (7) 3391-8622  
 Facsimile: (7) 3393-0394  
 Holding Company

**EYE LIGHTING AUSTRALIA PTY LTD.**  
 Acquired in 1974  
 151 Wellington Road, East Brisbane QLD4169, Australia  
 Phone: (7) 3391-8622  
 Facsimile: (7) 3393-0394  
 Sales of lamps, Luminaires and electric equipment

**EYE LIGHTING NEW ZEALAND LTD.**  
 Established in 1989  
 6 Tiri place, Mt. Wellington, Auckland, New Zealand  
 Phone: (9) 276-8099  
 Facsimile: (9) 276-3474  
 Sales of lamps, Luminaires and electric equipment

**IWASAKI EYE LIGHTING EUROPE B.V.**  
 Established in 1990  
 Kostverlorenstraat 6, 2042 PG Zandvoort P.O.Box 2838 100CV Amsterdam, The Netherlands  
 Phone: (20) 540-5800  
 Facsimile: (20) 644-7011  
 Sales of lamps, Luminaires and electric equipment

**IWASAKI EYE LIGHTING EUROPE B.V., UK BRANCH**  
 Opened in 2000  
 Unit 2, Chartridge Development, Eskdale Road, Uxbridge, Middlesex UB8 2RT, U.K.  
 Phone: (1895) 814418  
 Facsimile: (1895) 814666  
 Sales of lamps, Luminaires and electric equipment

**IWASAKI ELECTRIC CO., LTD. NORTH AMERICA OFFICE**  
 Established in 2003  
 42 Industrial Way, Wilmington, MA 01887, U.S.A.  
 Phone: (978) 694-9000  
 Facsimile: (978) 694-9046  
 Research and Development

(As of July 31, 2007)



**IWASAKI ELECTRIC CO., LTD.**

12-4, Shiba 3-chome, Minato-ku, Tokyo 105-0014, Japan  
<http://www.eye.co.jp/>