

Notes to Consolidated Financial Statements

March 31, 2011 and 2010

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 Financial Instruments and Exchange Act 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 readers outside Japan. In addition, certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2010 to the 2011 presentation.

As permitted, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements do not necessarily agree with the sums of the individual amounts.

(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 all significant subsidiaries.

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

As of March 31, 2011 and 2010, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 27 and 6, respectively. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are recorded based on the fair value at the time the Company acquired control of the respective subsidiaries.

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

Application of the “Accounting Standard for Equity Method of Accounting for Investments” and the “Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method”

Effective the year ended March 31, 2011, the “Accounting Standard for Equity Method of Accounting for Investments” (Accounting Standards Board of Japan “ASBJ” Statement No. 16, issued on March 10, 2008) and the “Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method” (Practical Issues Task Force “PITF” No.24, issued on March 10, 2008) have been adopted.

This change had no effect on the consolidated financial statements for the year ended March 31, 2011.

(c) Accounting period

The accounting period of the Company and its domestic subsidiaries begins April 1 and ends March 31 of the following year.

The accounting period of foreign consolidated subsidiaries is a fiscal year ending on December 31. The necessary adjustments for significant transactions between the fiscal year end of the Company and the fiscal year end of consolidated foreign subsidiaries, if any, are made in the preparation of the 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. The assets, liabilities, revenue and expense of foreign consolidated subsidiaries are translated into yen at the rate of exchange in effect at the balance sheet date, except for the components of net assets excluding minority interests which are translated at their historical exchange rates. Foreign exchange gains and losses resulting from foreign currency transactions are credited or charged to income. Translation differences resulting from the translation of the financial statements are included in net assets and minority interests.

(e) Investment securities

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

Available-for-sale securities with a fair market value are carried at fair market value. The difference between the acquisition cost and the carrying value of available-for-sale securities is recognized in valuation difference on available-for-sale securities, net of related deferred income taxes, in net assets. Available-for-sale securities without a fair market value are stated at cost determined by the moving average method. The cost of available-for-sale securities sold is calculated based by the moving average method.

During the years ended March 31, 2011 and 2010, the Company and consolidated subsidiaries had neither trading securities nor held-to-maturity securities.

(f) Derivatives and 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. The Company does not enter into derivative transactions for trading or speculative purposes. 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.

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

(g) Cash and cash equivalents in the consolidated statements of cash flows

Cash and cash equivalents include cash on hand, demand deposits and short-term investments that are easily convertible into cash and exposed to little price fluctuation risk.

(h) Inventories

Inventories are stated at cost as determined by the weighted-average method. Balance sheet value is stated by writing down the carrying value to reflect any decline in profitability.

(i) Property, plant and equipment, and depreciation (excluding leased assets)

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

(j) Intangible assets and long-term prepaid expenses (excluding leased assets)

Depreciation of intangible assets of the Company and its subsidiaries are principally calculated by the straight-line method in conformity with the Corporation Tax Law of Japan.

Depreciation of software for internal use is calculated by the straight-line method over a useful life of 5

years.

(k) Leases

Noncancelable lease transactions that transfer substantially all risks and rewards associated with the ownership of assets are accounted for as finance leases. All other lease transactions are accounted for as operating leases and relating payments are charged to income as incurred.

Depreciation of leased assets under finance lease transactions, except for those that transfer ownership of the leased assets to the lessee, are calculated using the straight-line method over the lease term assuming no residual value.

Finance leases that commenced on or before March 31, 2008, except for those that transfer ownership of the leased assets to the lessee, are accounted for under the method applicable to operating lease transactions.

(l) Allowance for doubtful receivables

Allowance for doubtful accounts is provided based on the past experience for receivables, other than doubtful receivables, and the uncollectible amounts estimated separately for specific doubtful receivables.

(m) Provision for employees' bonuses

The Company and domestic subsidiaries provide for payments of bonuses to employees at estimated amounts calculated based on their payment regulations. However, at foreign subsidiaries, a provision for employees' bonuses has not been recorded.

(n) Provision for employees' retirement benefits

Provision for employees' retirement benefits are provided based on the actuarially calculated value of retirement and severance benefits obligation and the pension assets.

A transitional obligation of ¥4,682 million is being amortized using the straight-line method over 15 years from the year ended March 31, 2001. Prior service liabilities are recognized by the straight-line method over a period not exceeding the expected average remaining working life of employees (14 years) from the fiscal year when such liabilities are identified. 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.

Effective the year ended March 31, 2008, "Partial Amendments to Accounting Standard for Retirement Benefits (Part2)" (ASBJ Statement No. 14 issued on May 15, 2007) has been applied.

(Additional information)

The Company and some consolidated subsidiaries in Japan terminated their tax-qualified retirement pension plan and introduced a defined-benefit pension plan on November 1, 2009.

There was no material impact on the statement of operations from this change.

(o) Provision for directors' retirement benefits

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

(p) Provision for loss on disaster

Provision for loss on disaster is provided for expenses expected to be incurred for the recovery, etc., of assets damaged by the Great East Japan Earthquake at an estimated amount as of the end of the fiscal year.

(q) Accounting for significant revenues and expenses

Accounting for revenues and costs of completed construction work

a) Construction contracts in which the outcome of the part completed by the period end can be estimated reliably.

Percentage-of-completion method (The percentage of completion is estimated based on the cost incurred as a percentage of the estimated total contract cost.)

b) Other construction contracts

Completed contract method

(Changes in accounting policy)

Revenues relating to construction contracts were previously accounted for by the completed contract method. Effective from the year ended March 31, 2010, the “Accounting Standard for Construction Contracts” (ASBJ Statement No. 15; December 27, 2007) and the “Guidance on Accounting Standard for Construction Contracts” (ASBJ Guidance No. 18; December 27, 2007) have been adopted. With respect to construction contracts started in the year ended March 31, 2010 or later, those in which the outcome of the completed part of the contract can be estimated reliably are accounted for by the percentage-of-completion method (The percentage of completion is estimated based on the cost incurred as a percentage of the estimated total contract cost.) and other contracts are accounted for by the completed contract method.

This change has no impact on the statement of operations.

(r) Consumption taxes

Consumption taxes are calculated by the tax exclusion method.

(s) Amortization of negative goodwill

Negative goodwill is amortized by the straight-line method over a period of five years. Negative goodwill that is immaterial is credited to income in the year of acquisition.

(t) Comparatives

Certain accounts in the consolidated financial statements for the year ended March 31, 2010, have been reclassified to conform to the 2011 presentation.

(u) Litigation settlements

The patent litigation with Philips, which was pending in Germany and the United States, was settled with the Company paying Philips Corporate Intellectual Property & Standards GmbH ¥639 million on October 29, 2009; and the Company paying U.S. Philips Corporation ¥3,502 million on January 7, 2010. The patent litigation concluded upon completion of the procedures relating to the said settlements.

This resulted in the inclusion of litigation settlement payments of ¥4,142 million in other expenses reported for the year ended March 31, 2010.

(v) Consolidated Statements of Cash Flows

“Loss on valuation of investment securities,” which had been included in “Others” as part of the cash flows from operating activities until the year ended March 31, 2010, has been separately presented under the cash flows from operating activities because of its increased significance.

“Loss on valuation of investment securities,” which had been included in “Others” as part of the cash flows from operating activities for the year ended March 31, 2010, was ¥1 million.

(w) Accounting Standard for Presentation of Comprehensive Income

Effective the year ended March 31, 2011, the “Accounting Standard for Presentation of Comprehensive Income” (ASBJ Statement No. 25, issued on June 30, 2010) has been applied. However, amounts included in “Accumulated other comprehensive income” and “Total accumulated other comprehensive income” in the accompanying consolidated balance sheets as of March 31, 2010 had previously been presented as “Valuation and translation adjustments” and “Total valuation and translation adjustments” respectively.

2. Changes in Accounting Policies

(a) Application of the “Accounting Standard for Asset Retirement Obligations,” etc.

Effective the year ended March 31, 2011, the “Accounting Standard for Asset Retirement Obligations” (ASBJ Statement No. 18, issued on March 31, 2008) and the “Implementation Guidance on Accounting Standard for Asset Retirement Obligations” (ASBJ Guidance No. 21, issued on March 31, 2008) have been adopted.

As a result of this change, operating income decreased by ¥4 million, and income before income taxes and minority interests decreased by ¥49 million for the year ended March 31, 2011.

(b) Application of the “Accounting Standard for Business Combinations,” etc.

Effective the year ended March 31, 2011, the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, issued on December 26, 2008), the “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, issued on December 26, 2008), the “Partial Amendments to Accounting Standard for Research and Development Costs” (ASBJ Statement No. 23, issued on December 26, 2008), the “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, Revised, 2008), the “Revised Accounting Standard for Equity Method of Accounting for Investments” (ASBJ Statement No. 16, issued on December 26, 2008), and the “Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, Revised, 2008) have been adopted.

3. Investment Securities

Information regarding investment securities classified as available-for-sale securities with fair market value at March 31, 2011 and 2010 is summarized as follows:

	Millions of yen					
	2011			2010		
	Acquisition cost	Carrying amount (Fair market value)	Unrealized gain (loss)	Acquisition cost	Carrying amount (Fair market value)	Unrealized gain (loss)
Securities whose carrying amount (fair market value) exceeds their acquisition cost:						
Equity securities	¥978	¥1,636	¥657	¥1,050	¥1,710	¥659
Debt securities						
Government bonds	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
Other	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	978	1,636	657	1,050	1,710	659
Securities whose acquisition cost exceeds their carrying amount (fair market value):						
Equity securities	450	373	(76)	350	298	(51)
Debt securities						
Government bonds	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
Other	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	450	373	(76)	350	298	(47)
Total	¥1,428	¥2,009	¥580	¥1,401	¥2,008	¥607

Note: 1. Unlisted equity securities are not included in available-for-sale securities listed above as they do not have market prices and their fair values are not readily determinable.

2. There were no sales of securities classified as available-for-sale securities for the year ended March 31, 2011.

3. Securities for which impairment losses were recognized for the year ended March 31, 2011

For the year ended March 31, 2011, no impairment losses were recognized for available-for-sale equity securities with fair market value and ¥154 million impairment losses were recognized for equity securities without fair market value.

In cases where the fair market value of a security as of the end of the fiscal year has declined 50% or more from its acquisition cost, an impairment loss is recognized for the full amount. In cases where the fair market value of a security as of the end of the fiscal year has declined 30% or more but less than 50% from its acquisition cost, an impairment loss is recognized for an amount deemed necessary in consideration of a possibility of restoration, etc., on a case-by-case basis.

4. Short-Term Loans, Long-Term Loans and Other Long-Term Liabilities with Interest

Short-term loans from banks at an average interest rate of 1.18% amounted to ¥1,109 million and ¥1,868 million at March 31, 2011 and 2010, respectively.

Long-term loans, lease obligations and deposits received classified as other long-term liabilities with interest at March 31, 2011 and 2010 consisted of the following:

	Millions of yen	
	2011	2010
Loans, principally from banks, maturing in installments through 2012 with an average interest rate of 1.98%	¥8,960	¥8,960
Less current portion of loans	(2,865)	(930)
Net	6,095	8,030
Lease obligations	197	90
Less current portion of lease obligations	(61)	(20)
Net	136	70
Deposits received with an average interest rate of 3.11%	2,702	2,790
Total	¥8,933	¥10,620

The annual maturities of long-term loans and lease obligations subsequent to March 31, 2011 are summarized as follows:

	Loans	Lease obligations
	Millions of yen	Millions of yen
Year ending March 31,		
2013	¥5,520	¥59
2014	310	52
2015	225	19
2016 and thereafter	40	4

5. Asset Retirement Obligations

No description is provided pursuant to the provisions of Article 92-2 of the Regulations for Consolidated Financial Statements because the amount of asset retirement obligations as of March 31, 2011 accounted for less than 1% of total liabilities and net assets as of the end of the fiscal year.

6. Income Taxes

The tax effects of temporary differences that give rise to a significant portion of the deferred tax assets and deferred tax liabilities at March 31, 2011 and 2010 were as follows:

	Millions of yen	
	2011	2010
Deferred tax assets:		
Loss carryforward for tax purposes	¥2,316	¥3,273
Provision for retirement benefits	4,181	4,048
Unrealized loss on available-for-sale securities	30	20
Other	1,289	834
Gross deferred tax assets	7,818	8,177
Valuation allowance	(6,276)	(6,992)
Total deferred tax assets	¥1,541	¥1,184
Deferred tax liabilities:		
Land revaluation	(114)	(114)
Unrealized gain on available-for-sale securities	(262)	(263)
Other	(52)	(27)
Gross deferred tax liabilities	(430)	(405)
Net deferred tax assets	¥1,111	¥778

Note: Net deferred tax assets for the year ended March 31, 2011 were included in the following items on the consolidated balance sheets.

	Millions of yen	
	2011	2010
Current assets - Deferred tax assets	¥1,136	¥723
Investments and other assets -Deferred tax assets	368	403
Noncurrent liabilities - Deferred tax liabilities	(393)	(348)

No reconciliation of the Japanese statutory tax rate and the effective tax rate applicable to the Company for the year ended March 31, 2010 is provided because the fiscal year resulted in a net loss before income taxes and minority interests was recorded.

The reconciliation of the Japanese statutory tax rate and the effective tax rate applicable to the Company for the year ended March 31, 2011 was as follows:

	2011
Japanese statutory tax rate	40.0%
(Adjustments)	
Permanent differences, including entertainment, etc.	1.6
Permanent differences, including dividend income	(2.5)
Inhabitants taxes per capita, etc.	3.5
Decrease in valuation allowance	(37.1)
Amortization of negative goodwill	(3.9)
Other	6.1
Effective tax rate	7.7

7. Rental Properties

For the year ended March 31, 2011 and 2010

No description is provided because the total amount of rental properties is immaterial.

(Additional information)

Effective from the year ended March 31, 2011, the “Accounting Standard for Disclosures about Fair Value of Investment and Rental Property” (ASBJ Statement No. 20; November 28, 2008) and the “Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property” (ASBJ Guidance No. 23; November 28, 2008) have been adopted.

8. Shareholders' Equity

The Corporation Law of Japan (hereafter, 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 is 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 Affiliates

Investments in affiliates at March 31, 2011 and 2010 amounted to ¥730 million and ¥712 million, respectively, and are accounted for principally by the equity method.

10. Pledged Assets

A summary of assets pledged as collateral for long-term loans at March 31, 2011 and 2010, in the amount of ¥2,300 million respectively, is presented below:

	Millions of yen	
	2011	2010
Buildings and structures	¥1,160	¥1,263
Machinery, equipment and vehicles	982	1,382
Land	7,354	7,354
Total	¥9,498	¥10,000

11. Land Revaluation

Based on the Law Concerning 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.

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 31, 1998), after making reasonable adjustments.

The differences between the revalued carrying amount and the fair value as of March 31, 2011 and 2010 of land revalued pursuant to Article 10 of the law were ¥2,152 million and ¥1,945 million, respectively.

The amount of tax effect on the revaluation differences is reported as deferred tax liabilities for land revaluation. The revaluation difference less this tax liability is reported as revaluation reserve for land in valuation and translation adjustments.

12. Cost of Sales

Gain on valuation of inventories of ¥67 million was included in cost of sales for the year ended March 31, 2011, after writing down the carrying values to reflect declines in profitability.

13. Selling, General and Administrative Expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2011 and 2010 were as follows. The figures in the following table have been offset against reversals.

	Millions of yen	
	2011	2010
Salaries	¥4,783	¥5,264
Packing and transportation costs	1,618	1,678
Provision for employees' retirement benefits	699	747
Provision for employees' bonuses	186	112
Provision of allowance for doubtful accounts	—	41

Research and development expenses included in general and administrative expenses for the years ended March 31, 2011 and 2010 amounted to ¥450 million and ¥448 million, respectively.

14. Other Income

Gain on sale of noncurrent assets includes a gain on sale of land, etc., of ¥494 million.

15. Other Expenses

For the year ended March 31, 2011

Loss on sales and retirement of noncurrent assets primarily resulted from loss on retirement of buildings of ¥49 million and loss on retirement of tools, furniture and fixtures of ¥21 million.

Loss on disaster includes a provision for loss on disaster of ¥288 million, impairment loss on inventories of ¥35 million, and impairment loss on property, plant and equipment of ¥20 million, etc.

Special retirement benefits include special retirement benefits and re-employment support allowance.

For the year ended March 31, 2010

Loss on sales and retirement of noncurrent assets primarily resulted from loss on sales of buildings of ¥15 million, loss on retirement of buildings of ¥15 million, loss on sales of machinery and equipment of ¥3 million, loss on retirement of machinery and equipment of ¥18 million, loss on retirement of tools, furniture and fixtures of ¥12 million, and loss on sales of land of ¥7 million.

Loss on litigation settlement including attorney's fees, represents the cost of concluding all proceedings at patent court. For the settlement, these patent court procedures have been completed.

16. Statement of Comprehensive Income

For the year ended March 31, 2010

Comprehensive income for the year ended March 31, 2010 for comparative purposes was as follow:

	Millions of yen
Comprehensive income (loss) attributable to owners of the parent	¥ (7,687)
Comprehensive income (loss) attributable to minority interests	¥ (62)
Total	¥ (7,749)

Other comprehensive income for the year ended March 31, 2010 for comparative purposes was as follow:

	Millions of yen
Valuation difference on available-for-sale securities	¥69
Foreign currency translation adjustment	¥96
Share of other comprehensive income of associates accounted for using the equity method	¥179
Total	¥345

17. Supplemental Information of Consolidated Statements of Changes in Net Assets

(a) Type and number of issued shares and treasury stock

For the year ended March 31, 2011

	Number of shares (thousand)			
	March 31, 2010	Increase	Decrease	March 31, 2011
Type of issued shares				
Common stock	78,219	–	–	78,219
Total	78,219	–	–	78,219
Type of treasury stock				
Common stock	4,021	5	–	4,027
Total	4,021	5	–	4,027

Note: The increase of 5,819 shares of common stock in treasury was due to the repurchase of fractional shares.

For the year ended March 31, 2010

	Number of shares (thousand)			
	March 31, 2009	Increase	Decrease	March 31, 2010
Type of issued shares				
Common stock	78,219	–	–	78,219
Total	78,219	–	–	78,219
Type of treasury stock				
Common stock	4,011	10	–	4,021
Total	4,011	10	–	4,021

(b) Matters related to dividends

Not applicable.

18. Supplemental Cash Flow Information

A reconciliation of cash and cash equivalents as of March 31, 2011 and 2010 to cash and deposits in the accompanying consolidated balance sheets was as follows:

	Millions of yen	
	2011	2010
Cash and deposits	¥13,731	¥12,020
Time deposits with maturity in excess of three months	(801)	(851)
Cash and cash equivalents	¥12,929	¥11,168

19. Leases

Finance lease transactions, except for those that transfer ownership of leased assets to the lessee, are accounted for as explained in Note 1 (k).

Leased assets include production equipment (machinery and equipment) and dies and molds (tools, furniture and fixtures) as property, plant and equipment, and software as intangible assets.

Finance lease transactions that commenced on or before March 31, 2008, except for those that transfer ownership of leased assets to the lessee, are accounted for under the method applicable to operating lease transactions. Details are as follows:

- (1) A summary of pro forma amounts (inclusive of the imputed interest expense portion) of acquisition cost, accumulated depreciation and net book value at March 31, 2011 and 2010, of mainly leased tools, furniture and fixtures on an “as if capitalized” basis is as follows:

	Millions of yen	
	2011	2010
Acquisition cost	¥472	¥816
Accumulated depreciation	376	577
Net book value	¥96	¥238

- (2) A summary of future minimum lease payments (inclusive of imputed interest expense portion), required under non-cancelable operating leases at March 31, 2011 and 2010 was as follows:

	Millions of yen	
	2011	2010
Due in one year or less	¥64	¥94
Due after one year	31	143
Total	¥96	¥238

(3) Lease payments and pro forma depreciation for the years ended March 31, 2011 and 2010 were as follows:

	Millions of yen	
	2011	2010
Lease payments	¥83	¥151
Depreciation expense	83	151

(4) Depreciation charges are calculated using the straight-line method over the lease term assuming no residual value.

(5) There was no impairment loss on leased assets.

20. Employees' Retirement Benefits

The Company and certain of its domestic subsidiaries have a defined benefit plan covering substantially all of their employees. The plan includes the lump sum payment plan and the defined-benefit pension plan. In addition, the Company has a multi-employer welfare pension fund plan, established by participating companies. Certain of its domestic subsidiaries participate in the Cooperative for Retirement Benefits for Medium-Sized and Small Companies and a defined contribution pension plan.

The company and some consolidated subsidiaries in Japan terminated their tax-qualified pension plan and introduced a defined-benefit pension plan on November 1, 2009. The plans' funded status and amount recognized in the accompanying consolidated balance sheets at March 31, 2011 and 2010 were as follows:

	Millions of yen	
	2011	2010
Projected benefit obligation	¥ 15,369	¥ (15,553)
Plan assets at fair value	2,221	2,290
Projected benefit obligation in excess of plan assets	(13,148)	(13,263)
Unrecognized transitional obligation	1,248	1,560
Unrecognized actuarial loss	1,120	1,275
Unrecognized past service liabilities	30	33
Accrued employees' retirement benefits	¥ (10,747)	¥ (10,394)

Note: Certain consolidated subsidiaries adopted a simplified method in the calculation of their projected benefit obligation.

The components of net periodic benefit costs of employees' retirement benefits for the years ended March 31, 2011 and 2010 were as follows:

	Millions of yen	
	2011	2010
Service cost	821	¥ 935
Interest cost	270	278
Expected return on plan assets	(49)	(60)
Amortization of actuarial loss	205	242
Amortization of transitional obligation	312	318
Past service liabilities recognized as expense	2	1
Net periodic benefit costs	¥ 1,563	¥ 1,715
Gain on dissolution of the contributory defined benefit pension plan	2	1
Total	¥ 1,563	¥ 1,715

Note: Service cost contains benefit costs of certain consolidated subsidiaries of which projected benefit obligations are calculated by a simplified method.

In addition, the Company paid ¥509 million for the year ended March 31, 2011 and ¥584 million for the year ended March 31, 2010 for the multi-employer welfare pension fund plan. The actuarial assumptions used in

accounting for the pension plans for the years ended March 31, 2011 and 2010 were as follows:

	2011	2010
Periodic allocation method for projected benefits	Straight-line method	Straight-line method
Discount rate	1.9%	1.9%
Expected return on plan assets	2.3%	2.9%
Amortization period of past service liability	14 years	14 years
Amortization period of actuarial gain/loss	14 years	14 years
Amortization period of transitional obligation	15 years	15 years

The total funded status of the multi-employer welfare pension fund plan for the years ended March 31, 2011 and 2010 were as follows:

	Millions of yen	
	2011	2010
Projected benefit obligations under pension funding computation	¥304,796	¥328,394
Plan assets at fair value	267,165	235,665
Projected benefit obligation in excess of plan assets	¥37,630	¥92,729

Notes: The ratio of the group's contribution to total contributions of the plan above was 3.50% for the year ended March 31, 2011 and 4.16% for the year ended March 31, 2010.

The main component of projected benefit obligation in excess of plan assets was prior service cost of ¥17,094 million for the year ended March 31, 2011 and ¥20,109 million for the year ended March 31, 2010. Prior service cost is amortized by the straight-line method over a period of 20 years.

21. Commitment and Contingent Liabilities

(a) The Company has entered into commitment line contracts with six banks in order to ensure the timeliness of financing.

Relevant figures as of March 31, 2011 are as follows:

Commitment lines extended	¥5,000 million
Loans payable	¥ -
Unused balance	¥5,000 million

(b) Restrictive financial covenants

A commitment line contract entered into on March 30, 2010 and a long-term loan agreement entered into on December 22, 2010 include restrictive financial covenants that require the Company (i) to maintain net assets of at least ¥13.8 billion or, if losses or allowances are posted as restructuring costs relating to an early retiree support program, employee transfers, etc., ¥12.0 billion, on the consolidated balance sheet as of the end of each quarter of each fiscal year; (ii) to not conclude the year ended March 31, 2011 with a consolidated ordinary loss; (iii) to not allow the consolidated ordinary loss as of the end of the second quarter of the year ended March 31, 2011 (July through September 2010) to exceed ¥1.5 billion (excluding the long-term loan agreement); (iv) and to not allow the total amount of interest-bearing liabilities (excluding lease liabilities) on the consolidated balance sheet as of the end of the year ended March 31, 2011 to exceed ¥16.0 billion.

In addition, with regard to loan agreements (including the commitment line contract) which have been entered into between the Company and financial institutions such as banks, etc., the aforementioned long-term loan agreement includes a covenant that allows the two parties to discuss the removal of these restrictive financial covenants after March 2012 in cases where there are no agreements with restrictive financial covenants other than the said long-term loan agreement, and the Company requests the counterparty of the agreement to discuss the said matter.

22 . Financial Instruments

For the year ended March 31, 2011

1. Matters relating to the status of financial instruments

(1) Policy toward financial instruments

In light of its capital investment plans, the Group procures necessary funds for business operations related to manufacturing and sales of lighting fixtures mainly through bank loans. Temporary surplus funds are kept in highly liquid, secure financial assets and short-term operating funds are procured by bank loans. The Company uses derivative transactions to manage foreign exchange risks and interest rate risks. It is the policy of the Company not to enter into derivative transactions for speculative purposes.

(2) Details of financial instruments, associated risks and risk control measures

Trade notes and accounts receivable carry customer credit risks. These risks are addressed in accordance with the Group's credit management rules by controlling the due dates and balances for each customer and investigating the credit status of major customers every three months.

Stocks carry market risks. Most stocks are those of companies which have business relationships with the Company and their market prices are regularly reported to the officer in charge of finance.

Most trade notes and accounts payable are due in one year or less.

Short-term loans payable are borrowed mainly as operating funds and long-term loans payable (in principle, due in five years or less) are borrowed mainly as funds for capital investments. Floating-rate loans carry interest rate fluctuation risk and each contract is hedged by using a derivative contract (interest rate swap) to mitigate its interest risk and stabilize interest expense. Examination of hedging effectiveness is omitted as hedging contracts have been judged to satisfy the requirements for special treatment of interest rate swaps.

Derivative transactions are executed and managed by the Company's financing department with the approval of the responsible officer, in accordance with the internal rules that stipulate the authorized individuals and trading limits. In order to mitigate credit risks, all derivative transactions are undertaken with highly creditworthy financial institutions.

(3) Supplemental explanation regarding fair value, etc., of financial instruments

The fair value of financial instruments includes values based on market prices and, with respect to financial instruments without a market price, value determined by reasonable calculation. Such calculation can include factors with variable parameters and different fair values are possible if different assumptions are employed.

2. Matters relating to fair value, etc. of financial instruments

The carrying amounts and fair values as of March 31, 2011 and differences are as follows. Financial instruments whose fair value is not readily determinable are not included in the following table (See Note 2).

	Carrying amount (Millions of yen)	Fair value (Millions of yen)	Difference (Millions of yen)
(1) Cash and deposits	¥13,731	¥13,731	-
(2) Notes and accounts receivable - trade	14,523	14,523	-
(3) Investment securities	2,009	2,009	-
Total assets	30,264	30,264	-
(4) Notes and accounts payable - trade	11,761	11,761	-
(5) Short-term loans payable	1,109	1,109	-
(6) Long-term loans payable	8,960	9,056	96
Total liabilities	21,831	21,927	96
Derivatives	-	-	-

(Notes)

1. Calculation method for fair value of financial instruments and matters relating to securities and derivatives

Assets

“(1) Cash and deposits” and “(2) Notes and accounts receivable - trade”

Book value is used as fair value because these items are to be settled in a short period of time and fair value is almost equal to book value.

“(3) Investment securities”

For stocks, the exchange price is used as fair value. Notes relating to securities held for different purposes are described in notes under “3. Investment Securities.”

Liabilities

“(4) Notes and accounts payable - trade” and “(5) Short-term loans payable”

Book value is used as fair value because these items are to be settled in a short period of time and fair value is almost equal to book value.

“(6) Long-term loans payable”

The fair value of long-term loans payable is determined by discounting the total amount of principal and interest of a loan by the interest rate applicable for a similar new loan. Floating-rate long-term loans are subject to the special treatment of interest rate swaps, in which the fair value is determined by discounting the amount of principal and interest, which factors in the relevant interest rate swap, by the interest rate reasonably estimated for a similar loan.

Derivatives

See note “23. Derivatives.”

2. Financial instruments whose fair values are not readily determinable are as follows:

Category	Carrying amount (Millions of yen)
Unlisted equity securities	993

These financial instruments do not have a market price and excessive costs would be incurred in estimating their future cash flows. Therefore, they are not included in “(3) Investment securities” as the fair value is not readily determinable.

3. Monetary claims with maturity dates subsequent to March 31, 2011 are summarized as follows:

	Due in one year or less (Millions of yen)	Due after one year (Millions of yen)
(1) Cash and deposits	13,727	-
(2) Notes and accounts receivable - trade	14,523	-
Total monetary claims	28,250	-

4. The redemption schedule for long-term debt, lease payments and other liabilities with interest are disclosed in Note 4.

For the year ended March 31, 2010

1. Matters relating to the status of financial instruments

(1) Policy toward financial instruments

In light of its capital investment plans, the Group procures necessary funds for business operations related to manufacturing and sales of lighting fixtures mainly through bank loans. Temporary surplus funds are kept in highly liquid, secure financial assets and short-term operating funds are procured by bank loans. The Company uses derivative transactions to manage foreign exchange risks and interest rate risks. It is the policy of the Company not to enter into derivative transactions for speculative purposes.

(2) Details of financial instruments, associated risks and risk control measures

Trade notes and accounts receivable carry customer credit risks. These risks are addressed in accordance with the Group’s credit management rules by controlling the due dates and balances for each customer and investigating the credit status of major customers every three months.

Stocks carry market risks. Most stocks are those of companies which have business relationships with the Company and their market prices are regularly reported to the officer in charge of finance. Most trade notes and accounts payable are due in one year or less.

Short-term loans payable are borrowed mainly as operating funds and long-term loans payable (in principle, due in five years or less) are borrowed mainly as funds for capital investments. Floating-rate loans carry interest rate fluctuation risk and each contract is hedged by using a derivative contract (interest rate swap) to mitigate its interest risk and stabilize interest expense. Examination of hedging effectiveness is omitted as hedging contracts have been judged to satisfy the requirements for special treatment of interest rate swaps.

Derivative transactions are executed and managed by the Company’s financing department with the approval of the responsible officer, in accordance with the internal rules that stipulate the authorized individuals and trading limits. In order to mitigate credit risks, all derivative transactions are undertaken with highly creditworthy financial institutions.

(3) Supplemental explanation regarding fair value, etc., of financial instruments

The fair value of financial instruments includes values based on market prices and, with respect to financial instruments without a market price, value determined by reasonable calculation. Such

calculation can include factors with variable parameters and different fair values are possible if different assumptions are employed. In “2. Matters relating to fair value, etc., of financial instruments,” contract amounts, etc., of derivatives do not represent their market risks.

2. Matters relating to fair value, etc. of financial instruments

The carrying amounts and fair values as of March 31, 2010 and differences are as follows. Financial instruments whose fair value is not readily determinable are not included in the following table (See Note 2).

	Carrying amount (Millions of yen)	Fair value (Millions of yen)	Difference (Millions of yen)
(1) Cash and deposits	¥12,020	¥12,020	-
(2) Notes and accounts receivable – trade	14,533	14,533	-
(3) Investment securities	2,008	2,008	-
Total assets	28,562	28,562	-
(4) Notes and accounts payable – trade	12,675	12,675	-
(5) Short-term loans payable	1,868	1,868	-
(6) Long-term loans payable	8,960	9,065	105
Total liabilities	23,504	23,610	105
Derivatives	-	-	-

(Notes)

1. Calculation method for fair value of financial instruments and matters relating to securities and derivatives

Assets

“(1) Cash and deposits” and “(2) Notes and accounts receivable - trade”

Book value is used as fair value because these items are to be settled in a short period of time and fair value is almost equal to book value.

“(3) Investment securities”

For stocks, the exchange price is used as fair value. Notes relating to securities held for different purposes are described in notes under “3. Investment Securities.”

Liabilities

“(4) Notes and accounts payable - trade” and “(5) Short-term loans payable”

Book value is used as fair value because these items are to be settled in a short period of time and fair value is almost equal to book value.

(6) Long-term loans payable

The fair value of long-term loans payable is determined by discounting the total amount of principal and interest of a loan by the interest rate applicable for a similar new loan. Floating-rate long-term loans are subject to the special treatment of interest rate swaps, in which the fair value is determined by discounting the amount of principal and interest, which factors in the relevant interest rate swap, by the interest rate reasonably estimated for a similar loan.

Derivatives

See note “23. Derivatives.”

2. Financial instruments whose fair values are not readily determinable are as follows:

Category	Carrying amount (Millions of yen)
Unlisted equity securities	1,130

These financial instruments do not have a market price and excessive costs would be incurred in estimating their future cash flows. Therefore, they are not included in “(3) Investment securities” as the fair value is not readily determinable.

3. Monetary claims with maturity dates subsequent to March 31, 2010 are summarized as follows:

	Due in one year or less (Millions of yen)	Due after one year (Millions of yen)
(1) Cash and deposits	12,020	-
(2) Notes and accounts receivable - trade	14,533	-
Total monetary claims	26,553	-

(Additional information)

Effective from the year ended March 31, 2010, the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10; last revised on March 10, 2008) and the “Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19; March 10, 2008) have been adopted.

23. 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, payables and forecasted transactions denominated in foreign currencies. The Company also has entered into an interest rate swap agreement to reduce its exposure to future adverse fluctuations in interest rates on its debt instruments. It is the policy of the Company and its subsidiaries not to enter into speculative derivative transactions.

As the Company enters into contracts with 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 the authorized person in accordance with the Company’s internal control policy in terms of the nature and maximum amount of transactions and authorization.

As of March 31, 2011 and 2010, there were no derivative transactions outstanding for which hedge accounting has not been applied.

The notional amounts and the fair value of the derivative instruments outstanding as of March 31, 2011, for which hedge accounting has been applied are summarized as follows:

For the year ended March 31, 2011

	Notional Amount(Millions of yen)		Fair value(Millions of yen)
	Maturing within one year	Maturing after one year	
Interest rate swap hedging long-term loans payable, accounted for short-cut method:			
Receiving/floating and pay/fixed	¥5,215	¥3,935	*1

*1 The fair value is included in the fair value of long-term loans payable, since the shortcut method is applied.

For the year ended March 31, 2010

	Notional Amount(Millions of yen)		Fair value(Millions of yen)
	Maturing within one year	Maturing after one year	
Interest rate swap hedging long-term loans payable, accounted for short-cut method:			
Receiving/floating and pay/fixed	¥5,395	¥5,215	*1

*1 The fair value is included in the fair value of long-term loans payable, since the shortcut method is applied.

See note “22.Financial instruments.”

24. Segment Information

The industry and geographic segments for the year ended March 31, 2010 is summarized as follows:

	Millions of yen	
	2010	
(a) Industry Segments		
Sales:		
Lighting Sector	¥	32,899
Applied Optics Sector		19,308
Other Sector		223
		52,432
Corporate and eliminations		–
	¥	52,432
Operating costs:		
Lighting Sector	¥	31,969
Applied Optics Sector		18,710
Other Sector		294
		50,974
Corporate and eliminations		1,869
	¥	52,844
Operating (loss) income:		
Lighting Sector	¥	930
Applied Optics Sector		598
Other Sector		(71)
		1,457
Corporate and eliminations		(1,869)
	¥	(412)
Assets:		
Lighting Sector	¥	28,503
Applied Optics Sector		22,902
Other Sector		712
		52,118
Corporate and eliminations		9,064
	¥	61,183
Depreciation:		
Lighting Sector	¥	1,290
Applied Optics Sector		665
Other Sector		2
		1,958
Corporate and eliminations		37
	¥	1,995
Capital expenditures:		
Lighting Sector	¥	630
Applied Optics Sector		198
Other Sector		0
		829
Corporate and eliminations		0
	¥	830

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

1. Industry segments are defined by similarity of products.
2. The main products in each industry segment include:

Lighting Sector	HID lamps and Luminaires/LED 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
3. Unallocatable operating costs included in “Corporate and eliminations” are incurred mainly in corporate division of the Company.
4. Assets included in “Corporate and eliminations” are mainly composed of “Cash and deposits,” “Investment securities” and assets used in the corporate division in the Company.

	Millions of yen	
	March 31, 2010	
(b) Geographic Segments		
Sales:		
Japan	¥	48,949
North America		3,816
Asia		970
Europe		116
		53,852
Corporate and eliminations		(1,420)
	¥	52,432
Operating costs		
Japan	¥	47,577
North America		3,663
Asia		943
Europe		113
		52,297
Corporate and eliminations		547
	¥	52,844
Operating income		
Japan	¥	1,372
North America		153
Asia		27
Europe		3
		1,555
Corporate and eliminations		(1,968)
	¥	(412)
Assets:		
Japan	¥	48,390
North America		2,805
Asia		1,362
Europe		116
		52,675
Corporate and eliminations		8,507
	¥	61,183

Geographic segments are defined by geographical proximity.

- Each region consists principally of the countries as follows:
 North America U.S.A.
 Asia China, Singapore and Malaysia
 Europe the United Kingdom
- Unallocatable operating costs included in “Corporate and eliminations” are incurred mainly in the corporate division of the Company.
- Assets included in “Corporate and eliminations” are mainly composed of “Cash and deposits,” “Investment securities” and assets used in the corporate division in the Company.

Overseas sales by region and as a percentage of consolidated sales for the years ended March 31, 2011 and 2010 are summarized as follows:

		Millions of yen	
		2010	
(c) Overseas sales			
Sales:			
To North America	¥	3,909	
To Asia		6,043	
To Europe		353	
To other		387	
	¥	10,694	
Ratio to consolidated net sales:			
To North America		7.5	%
To Asia		11.5	
To Europe		0.7	
To other		0.7	
		20.4	%

- Each region consists principally of the following countries:
North America U.S.A.
Asia China, Singapore, Taiwan and Korea
Europe the United Kingdom
Other Australia
- Overseas sales include the export sales of the parent company and domestic subsidiaries and the domestic sales of overseas subsidiaries.

Segment Information (For the year ended March 31, 2011)

1. General Information about Reportable Segments

The reportable segments of the Company are business sectors of the Iwasaki Electric Group for which the Company is able to obtain separate individual financial information allowing the board of directors to conduct periodic analysis to evaluate their business performance and determine the optimum distribution of management resources.

The Iwasaki Electric Group has two reportable business segments, the “Lighting Sector” which includes the manufacture and sales of a wide range of light sources such as lamps and luminaires, and the “Applied Optics Sector” which includes the manufacture and sales of applied optics products.

2. Method for Calculating Net Sales, Income or Loss, Assets, Liabilities, and Other Items in Each Reportable Segment

In general, the method for the accounting of reportable business segments is the same as that described in the “Basis of presentation of the consolidated financial statements.” Income in the reportable segments is operating income. Inter-group net sales or transfers are based on actual market prices.

3. Information on Net Sales, Income or Loss, Assets, Liabilities, and Other Items in Each Reportable Segment

	Millions of yen	
	2011	2010
Sales:		
Lighting Sector	¥ 34,296	¥ 33,123
Applied Optics Sector	19,861	19,308
	54,158	52,432
Corporate and eliminations:		
Lighting Sector	1	–
Applied Optics Sector	–	–
	1	–
Adjustments	(1)	–
	¥ 54,158	¥ 52,432
Segment Income:		
Lighting Sector	¥ 2,047	¥ 835
Applied Optics Sector	2,551	584
	4,599	1,420
Adjustments	(1,617)	(1,832)
	¥ 2,981	¥ (412)
Segment Assets:		
Lighting Sector	¥ 31,357	¥ 29,812
Applied Optics Sector	22,819	22,991
	54,177	52,804
Adjustments	8,443	8,379
	¥ 62,620	¥ 61,183
Depreciation and Amortization:		
Lighting Sector	¥ 1,329	¥ 1,277
Applied Optics Sector	545	717
	1,874	1,995
Adjustments	–	–
	¥ 1,874	¥ 1,995
Increase (decrease) in Property, Plant and Equipment and Intangible Assets:		
Lighting Sector	¥ 687	¥ 606
Applied Optics Sector	265	223
	953	830
Adjustments	–	–
	¥ 953	¥ 830

1. The adjustments for segment income of ¥ (1,617) million and ¥ (1,832) million include corporate costs, etc., which have not been allocated to the reportable segments.
2. The adjustments for segment assets of ¥8,443 million and ¥8,379 million include financial assets, etc., of the Company which have not been allocated to the reportable segments.

Related Information

For the year ended March 31, 2011

1. Information by Product and Service

No description is provided because information on segments by product and service is the same as that of the reportable segments.

2. Information on Each Region

(1) Net Sales

Millions of yen					
Japan	North America	Asia	Europe	Others	Total
42,681	3,869	6,806	354	445	54,158

(2) Property, Plant and Equipment

No description is provided because property, plant and equipment in Japan as of March 31, 2011 accounts for more than 90% of property, plant and equipment in the consolidated balance sheets.

3. Information on Each Major Customer

No description is provided because no individual external customers account for 10% or more of net sales for the year ended March 31, 2011 in the consolidated statements of operations.

Information on the Amount of Amortization of Negative Goodwill and Balance in Each Reportable Segment

As of and for the year ended March 31, 2011

	Millions of yen			
	Lighting Sector	Applied Optics Sector	Corporate and eliminations	Total
Amortization for the year ended March 31, 2011	32	128	-	160
Balance as of March 31, 2011	66	88	-	154

(Additional information)

Effective from the year ended March 31, 2011, the Company has adopted the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (ASBJ Statement No. 17, March 27, 2009) and the Implementation Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (ASBJ Guidance No. 20, March 21, 2008).

25.Amounts per Share

Per share information for the years ended March 31, 2011 and 2010 was as follows:

	Yen	
	2011	2010
Net income (loss)	¥23.34	(¥108.24)
Net assets	255.15	236.77

The basis of the computation of net income (loss) per share for the years ended March 31, 2011 and 2010 is as follows:

	Millions of yen	
	2011	2010
Net income (loss) per share		
Net income (loss)	¥1,731	(¥8,031)
Amount of not attributable to normal shareholders	–	–
Net income (loss) allocable to common shares	¥1,731	(¥8,031)
Average number of shares		
For the period (shares)	74,194,813	74,202,955

26. Business Combinations

For the year ended March 31, 2010

Not applicable.

For the year ended March 31, 2011

Not Applicable.

27. Related Party Transactions

For the year ended March 31, 2010

Not applicable.

For the year ended March 31, 2011

Not Applicable.

28. Stock Options

For the year ended March 31, 2010

Not applicable.

For the year ended March 31, 2011

Not Applicable.

29. Significant Subsequent Events

For the year ended March 31, 2010

Not applicable.

For the year ended March 31, 2011

Not Applicable.