



ANNUAL REPORT
2012

OSAKI ELECTRIC CO.,LTD.

Financial Highlights

Osaki Electric Co., Ltd. and Consolidated Subsidiaries

Years ended March 31

	Millions of yen					Thousands of U.S.dollars
	2008	2009	2010	2011	2012	2012
For the year:						
Net sales	¥ 49,988	¥ 50,315	¥ 46,774	¥ 45,975	¥ 47,362	\$ 576,252
Operating income	3,885	4,670	3,011	3,825	3,329	40,508
Net income	1,570	947	1,101	1,020	1,339	16,294
At year-end:						
Total assets	65,342	61,887	61,665	63,051	79,352	965,479
Total equity	37,641	37,795	38,578	39,301	36,204	440,503
Number of employees	1,897	1,841	1,817	1,821	3,369	
Per share of common stock:						
Net income	¥ 41.60	¥ 25.28	¥ 29.40	¥ 27.26	¥ 36.95	\$ 0.44
Cash dividends	15.00	15.00	12.00	12.00	12.00	0.14
Equity	642.37	633.87	656.33	668.97	688.13	8.37

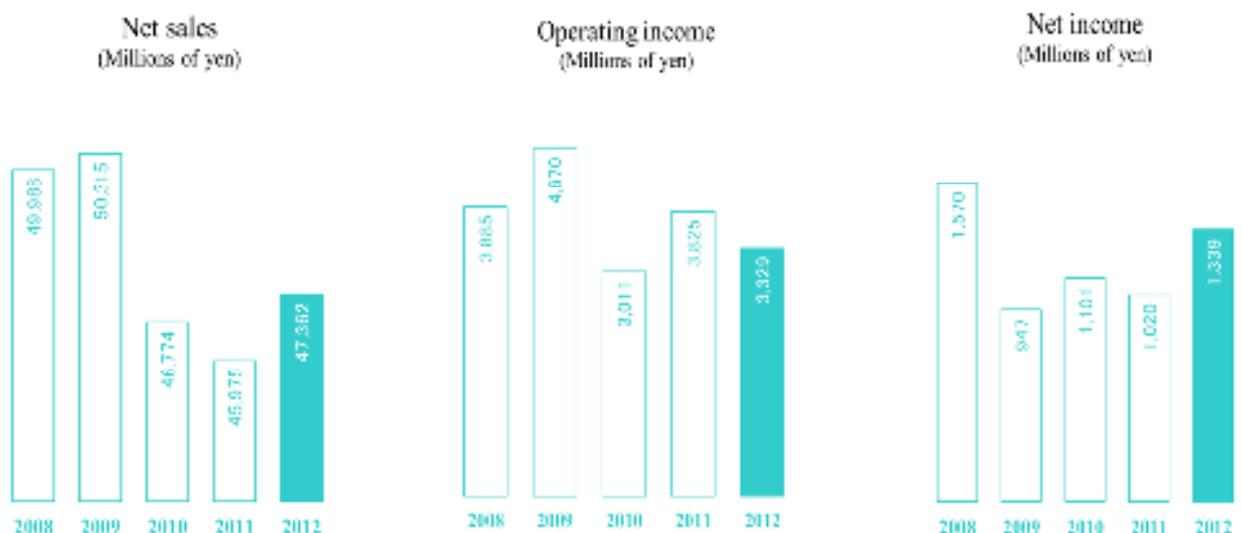
Notes : U.S.dollar amounts have been translated from yen, for convenience only, at the rate of ¥82.19=U.S.\$1
the approximate Tokyo foreign exchange market rate as of March 30, 2012.

Business segments -**Measurement and control equipments:**

Watt-hour meters, Current limiter, Instrument VCT, Distribution panels & Supervisory control boards, Time switches, Optical communication device, Meter reading systems.

FPD Assembling equipments:

LCD assembling equipment, PDP assembling equipment, RFID related assembling equipment (IC card and IC tag), Semi-conductor assembling equipment.

Real estate: Estate for rent.

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Osaki Philosophy

Osaki group's guidelines for corporate actions with incessant personal development and a broader view, be responsible for better society, better global environment while creating outstanding customer value.

O PEN MIND

Creating products that please our customers comes first.

Regardless of the market or the times, without any preconceptions, we respond to our customer's needs with flexibility, and also look ahead to actively answer to unseen needs.

S OCIETY

In harmony with society, we aim to grow with society.

With our accumulated expertise as the foundation, we work to answer the dreams of society with our new technology. As a member of society, we work in harmony with society, contribute to society, and aim to become a company that society cannot do without.

A CTIVITY

Making use of each person's abilities to the full, we bring out people's dreams and create a high quality life.

Each person's characters and abilities combined create a whole new value that moves the company towards growth. Coming forward with original ideas, suggestions and challenging. We believe that this is what makes it worth living and working, and furthermore, what brings out each person's dreams and a more relaxed atmosphere.

K NOWLEDGE

With a wide interest in what goes on around us, we actively challenge ourselves to new things.

In this rapidly changing world, we absorb information from a global viewpoint and respond with sensibility. We believe that actively challenging ourselves to new things will vitalize our company and liven up our society.

I NTEGRATION

Looking at things from the viewpoint of the entire company, we aim to develop a cooperative organization.

We constantly view ourselves and our roles in the company through the eyes of the entire company, and take action accordingly. By cooperating with each other, the information and values that each of us hold join together, creating something new of even greater value, along with a lively company atmosphere.

A message from the Chairman and President



TO OUR SHAREHOLDERS

Osaki Electric Group has been making efforts for the efficient use of electric power by providing technologies, systems, and products for measurement, control and communication. Our philosophy is to utilize limited resources to create a comfortable environment for social living. Our close partnership with electric power companies has enabled us to contribute to the Japanese electric power industries and more specifically the construction of most reliable and accurate distribution systems.

Our society is constantly undergoing changes. Deregulation is promoted in various fields and new technologies are being released while in the field of communication we are experiencing revolutionary advancements. In order to cope with such changes, we will continue to reform and strengthen our business structure and maximize shareholder's value. In addition to our regular product groups, we are also placing emphasis on the development of the optical communication business and the in-line production system of the flat-panel displays. In the electronics industry, we hope to establish technologies that would give another breakthrough in the industry. Technological innovation holds unlimited possibilities. To enjoy a comfortable society, Osaki Electric Group will continue to strive forth to the goal with our spirit and creativity.

We sincerely appreciate and request your continued patronage

Y. Watanabe
Chairman and CEO
Osaki Electric Co., Ltd.

Y. Matsui
President and COO
Osaki Electric Co., Ltd.

Management Policy

1. Basic Corporate Policy

The Osaki Electric Group has set forth its corporate policy statement as follows: “We will engage in energy measurement and control equipment as the starting point, and create new value by making positive challenges to new technologies as the next step, and thus make contributions to society and customers as a richly human-oriented company.” The company is aiming to become a company trusted by society while devising to maximize enterprise value.

The Measurement and Control Equipment Business is contributing to energy-saving deployments and global-warming abatement through the development of high-performance electronic electricity meters (smart meters), as well as a broad portfolio of equipment and systems for efficient usage of energy. These products address the customer service enhancements and the rationalization measures of electric power companies categorically described as the smart grid, and support automated meter-reading systems, complex electricity tariff menus, load balancing that includes peak usage shifting, and effective adoption of renewable energy.

The FPD (Flat Panel Display) Assembly Equipment Business is eyeing active developments for the FPD manufacture and mounting systems domain for LCDs and plasma display panels, and for new business to improve customer satisfaction in the semiconductor-related manufacture equipment market through fine-pitched mounting that presents a promising growth area.

2. Measurable Target for Management

The corporate group emphasizes management that pursues the efficiency of shareholder equity. We are placing efforts to attain an equity-to-net income ratio (ROE, return on equity) of 10% or higher as the measurable target for mid-term and long-term corporate management.

3. Mid-Term and Long-Term Corporate Strategies

The Mid-Term Corporate Operations Plan sets forth fundamental directions to enhance the enterprise value of the group through the following initiatives.

(1) The electronic electricity meter is migrating from a conventional metering instrument to the next-generation smart meter. Aggressive allocation of resources will build a firm business foundation to face the anticipated explosion in demand and concomitant intensifying competition. Efforts to secure a staunch position as a top manufacturer in Japan are going hand in hand with the creation of comprehensive energy measurement and control systems that will also address overseas markets focused on Asia and Oceania.

(2) For the general commercial market, we offer demand management services comprising energy consumption diagnostics and consulting for improved plant equipment operation, equipment updates, and energy procurement. Revenue growth is eyed through expanded energy-saving service offers to additional customers, mainly high-voltage commercial electricity accounts, such as home variety retailers and supermarkets.

Active development and sales of new value-added products will also be pursued for optical equipment beyond the existing customer base and portfolio in an effort to unearth new customers.

- (3) The FPD Assembly Equipment Business anticipates sustained growth, as a consequence of increased demand in digital home electronics devices like flat-screen television sets, personal computers, smartphones, etc. We are driving technology development and enhancing competitiveness further to deny competitive pursuit for semiconductor-related manufacture equipment, including manufacture equipment of IC cards and IC tags where market growth is anticipated, and in the test apparatus domain.

4. Fundamental Policy Regarding Distribution of Profits

Osaki Electric places the return of profit to shareholders as one of its core management policies. The company considers the continual distribution of a steady dividend to shareholders as the premise, with additional performance-based dividends as basic policy. Retained earnings are applied to R&D investments and capital expenditures towards the long-term increase of enterprise value, and will be leveraged effectively for future business efforts that improve performance.

The articles of incorporation allow for an interim dividend. Consequently, basic policy establishes semi-annual dividends from surplus as an interim dividend and year-end dividend. The board of directors authorizes the interim dividend, and the general shareholders meeting authorizes the year-end dividend.

For the operating year of this report, the dividend based on the above policy is set at 12 yen (of which 6 yen is the interim dividend).

Note: Dividends of surplus with record dates during the operating year of this report are as follows.

Date of Resolution	Total Dividend (Million Yen)	Dividend per Share (Yen)
Board of directors resolution of Nov. 1, 2011	213	6.00
Annual general shareholders meeting resolution of June 28, 2012	213	6.00

Business Status

1. Business Performance

(1) Overview of Consolidated Fiscal year

The Great East Japan Earthquake imposed a depressive impact on the domestic economy during the consolidated fiscal year under report. Despite gradual signs of recovery, a negative outlook is prevailing, based on downside risk factors such as restrictions on electric power supply, the nuclear disaster, a strong yen, deflation, and a global economic downturn.

The Osaki Electric Group finds itself amidst the following business management environment. On the one hand, in the Measurement and Control Equipment Business, our major customers, the electric power companies, have been hard hit by the 3.11 disaster. Not only those power companies that suffered direct damage, but also those that didn't face a grim outlook, saddled with issues including the re-starting of their nuclear power plants. Supplying manufacturers have feared that electric power companies may reduce orders, and thus the manufacturers in turn have suffered strong price pressure and fierce competition. On the other hand, in the FPD Assembly Equipment Business, new investments in the digital home electronics market, to which our main customers belong, have remained sluggish.

Under such circumstances, the Osaki Electric Group has been striving to improve performance by increasing sales and enhancing management efficiency through sales promotion activities and cost-cutting activities.

Consolidated net sales increased by 3.0% over the previous fiscal year to 47,362 million yen. Although sales of the FPD Assembly Equipment Business decreased, sales of the Measurement and Control Equipment Business increased.

As for earnings, operating income decreased by 13.0% from the previous fiscal year to 3,329 million yen, and ordinary income decreased by 22.6% to 3,215 million yen. The decreases were due to a change in the product mix, downward price pressure, and an increase in selling, general and administrative expenses in the Measurement and Control Equipment Business, and an increase in funding-related costs for a takeover bid. Net income increased by 31.3% from the previous consolidated fiscal year to 1,339 million yen as a result of posting a large devaluation of investments in securities as extraordinary losses in the previous fiscal year, and also reduced corporate income taxes associated with a deemed dividend and transfer loss accruing to the parent company from a subsidiary's buy-back of its own shares.

(2) Business Segments

(A) Measurement and control equipments business

This segment saw an increase in sales of new, electronic electricity meters to electric power companies. Moreover, sales of traditional electricity meters and current limiters also increased, driven by reconstruction demand in post-quake temporary housing, as well as equipment replacement demands in efforts to conserve energy consumption. Furthermore, sales of distribution panels/switchboards also increased, mainly in the commercial sector. Consequently, total sales of the segment increased by 5.1% over the previous consolidated fiscal year to 43,974 million yen. Operating income decreased by 10.6% from the previous consolidated fiscal year to 3,104 million yen. Associated factors were a change in the product mix, reduction of product prices, and increased expenses

(B) FPD Assembly Equipment Business

Although sales of semiconductor manufacturing-related equipment increased, net sales of FPD assembly equipment decreased, due to reduced capital expenditures by customers. Therefore, net sales of FPD assembly equipment decreased by 18.9% from the previous consolidated fiscal year to 3,081 million yen. Despite aggressive cost reduction for all types of products and reduction of various expenses, operating income decreased by 49.8% from the previous consolidated fiscal year to 84 million yen.

(C) Real estate business

Net sales for this segment decreased by 7.9% over the previous fiscal year to 445 million yen, and operating income decreased by 17.8% to 140 million yen.

(3) Outlook for Ensuing Fiscal Year

The Measurement and Control Equipment Business sees an increasing trend for demand in new, electronic electricity meters, but actions taken by the electric power companies remain unclear. The nuclear power disaster has affected the power companies, who are demanding price reductions for supplied products. Although energy-saving products should retain demand, the delay in pace recovery for housing starts that fell with the economic slowdown, and the intensifying competition among suppliers through the introduction of general competitive bidding are elements contributing to a continuing, unpredictable operating environment. Although newly joined SMB United Limited will augment consolidated performance, overall performance remains fluid, and clarifying performance of the net fiscal year at this time remains quite difficult. On the other hand, the FPD Assembly Equipment Business will continue under a tough business environment without an outlook for recovery in business climate.

Despite the tough environment, the Measurement and Control Equipment Business intends to further reinforce sales activities toward expansion of net sales, mainly from smart meters where growth in demand is expected. Initiatives include the introduction of new models and continued driving down of manufacture costs. Efforts will go toward overseas initiatives centered on SMB United Limited, and synergies will be pursued. Active order-taking activities will move ahead for existing clientele within and outside Japan for the FPD Assembly Equipment Business, as well as new customers associated with touch-screen panels and LED lighting.

The outlook for the full year ahead projects 65,000 million yen in net sales, 3,100 million yen in operating income, 3,000 million yen in ordinary income, and 1,600 million yen in net income.

Expected results for next consolidated fiscal year

Net sales	:	65,000 million yen (37.2% increase from previous consolidated fiscal year)
Operating income	:	3,100 million yen (6.9% decrease from previous consolidated fiscal year)
Ordinary income	:	3,000 million yen (6.7% decrease from previous consolidated fiscal year)
Net income	:	1,600 million yen (19.5% increase from previous consolidated fiscal year)

Note: The performance outlook above is a future estimate based on calculations made from information obtained for the Osaki Electric Group as of this writing and includes elements of uncertainty. Actual performance results may vary from this outlook.

2. Analysis of Financial Condition

Due to new consolidation of SMB United Limited and its subsidiaries, both total assets and total liabilities increased at the end of the consolidated fiscal year under report.

Total assets rose to 79,352 million yen at the end of the consolidated fiscal year under report, an increase of 16,301 million yen from the end of the previous consolidated fiscal year. Increases for cash and cash equivalents of 4,733 million yen, notes and accounts receivable, trade of 4,769 million yen, inventories of 3,858 million yen, property, plant and equipment of 4,249 million yen, and goodwill of 3,185 million yen were offset by a decrease in deposits of 5,222 million yen.

Total liabilities rose to 43,147 million yen at the end of the consolidated fiscal year under report, an increase of 19,397 million yen from the end of the previous consolidated fiscal year. Increases for notes and accounts payable, trade of 1,642 million yen, long-term bank loans and short-term debt, net of 19,439 million yen, other current liabilities of 2,722 million yen were offset by a decrease in bonds of 4,500 million yen.

Total equity fell to 36,204 million yen at the end of the consolidated fiscal year under report, a decrease of 3,096 million yen from the end of the previous consolidated fiscal year. Increases for retained earnings of 900 million yen and treasury stock of 1,343 million yen were offset by a decrease in minority interests of 2,650 million yen.

The equity ratio fell 8.8 points over the prior year's end to 30.9 %.

	Total assets (million yen)	Total liabilities (million yen)	Total equity (million yen)	Equity ratio
Year ended March 2012	79,352	43,147	36,204	30.9%
Year ended March 2011	63,051	23,749	39,301	39.7%
Difference	16,301	19,397	(3,096)	(8.8 points)

3. Cash Flows

Balances of cash and cash equivalents for the consolidated fiscal year under report totaled 12,643 million yen with a decrease of 533 million yen over the prior year's end.

	Year Ended March 2011 (million yen)	Year Ended March 2012 (million yen)	Difference (million yen)
Cash flows from operating activities	3,959	2,834	(1,124)
Cash flows from investing activities	5	(10,340)	(10,345)
Cash flows from financing activities	(1,495)	6,909	8,405
Cash and cash equivalents at end of year	13,197	12,643	(553)

(1) Cash flows from operating activities

Cash flows from operating activities amounted to 2,834 million yen. Increasing factors were income before income taxes and minority interests of 2,431 million yen, depreciation and amortization of 2,021 million yen, and inventories of 426 million yen. Decreasing factors were notes and accounts receivable rising by 592 million yen, notes and accounts payable dropping by 452 million yen, and income taxes paid of 1,953 million yen.

(2) Cash flows from investing activities

Cash flows from investing activities amounted to (10,340) million yen. The principal increasing factor was the proceeds from the refund of long-term deposits of 1,000 million yen. Decreasing factors were payments for property, plant and equipment of 2,214 million yen and payments for acquisition of shares of subsidiaries for 8,625 million yen.

(3) Cash flows from financing activities

Cash flows from financing activities amounted to 6,909 million yen. Increasing factors were long-term bank loans and short-term debt, net for a total of 16,557 million yen, etc. Decreasing factors were payments for the redemption of bonds for 4,500 million yen, and purchase of treasury stock of subsidiaries in consolidation for 4,201 million yen.

4. Responses to Business Challenges

(A) Measurement and control equipments business

Worsening business performance from the effects of the nuclear disaster at the electric power companies, our principal trade customers for the power company product portfolio, and the introduction of general competitive bidding have resulted in intensified competition among supplying manufacturers, while the decline in product selling prices and low level of housing starts affected by the economic slowdown have led to a continuing, tough business environment.

The electricity meter is a core product of our portfolio. Test introduction, study, and experimentation of the smart meter, the next-generation electricity meter, have started at a portion of the electric power companies. The smart meter transition is expected to ramp up, and, although some delay has arisen in the aftermath of the nuclear disaster, a period of full penetration is foreseen within the next few years. Amidst this backdrop, we are making an all-out effort to develop products that meet the needs of the power companies with high functionality, high quality and high reliability and that remain highly competitive. In an effort to acquire the largest market share of smart meters as achieved previously for conventional meters, we are building a production organization to meet increased demand and cutting costs to match selling prices.

(B) FPD assembling equipments business

Our principal customer base belongs to the digital home electronics industry for this segment. As manufacturing centers for the industry shift to China and Asian countries, the business environment experiences changes. We are thus being driven to promote order-taking activities based on enhanced competitiveness for our existing product line, to forge new business and issue new products, and to reinforce our production, distribution, and service organizations. Conditions have prompted us to improve added value in terms of product performance and functionality and to reinforce competitiveness through cost reductions. We will also concentrate our efforts on developing and marketing manufacture equipment for which we expect increased use, such as those for IC cards, IC tags, and image sensor modules (CMOS/CCD) used in digital cameras, LED lamp modules, and for complex mounting of fine electronic parts and optical parts.

(C) Real estate business

Improved occupancy rates and cost reductions are planned for this segment to improve the rate of return on investment.

5. Risks in Business Operations

The risk factors that may impose an impact on the management results and financial condition of the Osaki Electric Group include the following.

(1) Fluctuation in Demand

The market for the products manufactured by the corporate group (measurement and control equipment market, FPD manufacture apparatus market) may experience unexpected fluctuations (performance trends of power companies constituting the customer base, intensified competition through changes in tendering format, or other) that will change the demand for our products. Changes in the political or economic climates of countries or regions where products are distributed by the corporate group may alter demand for our products. Decreasing sales from large fluctuations in product demand may impose an adverse effect on the business performance and financial condition of the corporate group.

(2) Price Appreciation, Sourcing Difficulty of Material and Parts

The corporate group purchases materials, parts, and contracted assemblies externally for the manufacture of its product line. We have no guarantee against global economic conditions, the environments in material producing countries, and fluctuations in foreign exchange rates that may lead to the appreciation of prices and sourcing difficulties. Price appreciation and sourcing difficulty for materials and parts may impose an adverse effect on the business performance and financial condition of the corporate group.

(3) Stock Price Fluctuation

The corporate group owns approximately 3.5 billion yen worth of investments in securities. We have no guarantee against any valuation loss of these investments in securities in the event of a large drop in stock prices. A large valuation loss of investments in securities may impose an adverse effect on the business performance and financial condition of the corporate group.

(4) Real Estate Price Fluctuation

The corporate group is engaged in the Measurement and Control Equipment Business, FPD Assembly Equipment Business, and Real Estate Business, and consequently owns real estate in the form of land and buildings. A drop in real estate prices may impose an adverse effect on the business performance and financial condition of the corporate group.

(5) Product Failure

Manufacturing in the corporate group is performed under high quality control standards. We have no guarantee into the future, however, of safeguards for all our products against the occurrence of any recalls with respect to product failures or servicing failures or decrease in sales volume driven by any decline in customer satisfaction. A large-scale recall or product failure resulting in cancelled deliveries may impose an adverse effect on the business performance and financial condition of the corporate group.

(6) Business Concentration on Select Customers

Among the customers of the corporate group, the Measurement and Control Equipment Business mainly delivers electricity meters as its core product line, current limiters, measuring instrument converters, monitor control apparatuses, and time switches to the 10 electric power companies in Japan. The proportion of net sales to the power companies and their affiliated companies accounts for over half of total net sales. The FPD Assembly Equipment Business also relies on select accounts for a high proportion of net sales.

Thus, changes in business format of the customers or in the business relationship may impose an adverse effect on the business performance and financial condition of the corporate group.

(7) Corporate Acquisition

The corporate group may engage in corporate mergers and acquisitions and in business reorganizations for purposes of business expansion or reinforcing competitiveness. Recently, the stock of SMB United Limited, a Singapore corporation, was acquired, and consolidated as a subsidiary. In this type of initiative, timely accomplishment of expected events, such as securing growth opportunities, improving financial condition, and integrating various systems may not be concluded (or achieved). Unforeseen problems may arise, where unplanned expenses and costs accrue. Any of these potential situations may impose an adverse effect on the business performance and financial condition of the corporate group.

6. Managerial Contracts with Material Importance

Business tie-up contracts

Company within corporate group	Contract Party	Country	Contract Details	Date of contract	Contract term
Osaki Electric Co., Ltd. (Parent)	Nitto Kogyo Corporation	Japan	<ol style="list-style-type: none"> 1. Securing competitive advantages for custom-ordered panels, electronic device products, and communication device products with respect to quality, costs and delivery 2. Joint-development of new products 3. Mutual exchange of professional engineers 	September 22 nd , 2009	September 22, 2009 until September 21, 2014
Osaki Electric Systems Co., Ltd. (Consolidated subsidiary)					

7. Research and Development

Responding promptly to the needs in this period of significant changes to the business environment, Osaki Electric is streamlining the product development organization for all group companies, including consolidated subsidiaries, activating human resources in flexible fashion, and investing in research and development for purposes of new product development and product improvement.

Research and development (R&D) expenses spent by the corporate group for the consolidated fiscal year under report totaled 1,816 million yen.

R&D activities for each business segment are provided below.

(A) Measurement and control equipments business

R&D associated with electricity meters has focused on smart meters, which are expected to receive extensive promotion in installation, in response to worldwide changes in energy delivery. R&D for electricity meters is also advancing in response to needs of the power companies in Japan, amidst their announcements regarding smart meter introduction. For the smart meter lineup whose shipments have started, the development of a series to broaden the portfolio and further cost reduction are main efforts.

We are also actively promoting development of component technologies. Globally, the electricity meter is rapidly transforming from an isolated instrument to part of a solution as a smart meter. In response to this trend, the corporate group is pursuing development of a series of smart meter products and reducing costs for power companies overseas.

As smart meter solutions pervade for electricity metering, R&D has proceeded on various telecommunication technologies contemplated for adoption: optical communications, power line communications, wireless communications, etc. Consequently, systems and product development that exploits these technologies are also underway. Automated meter-reading terminals that apply optical and IP-related technologies for large customers are in the process of delivery to power companies. Further development for products that leverage these technologies continues presently.

Contributing to improved energy supply and demand, our general commercial equipment supports the energy solutions business. Namely, BEMS (building energy management system), HEMS (home energy management system), and demand control apparatuses find roles in improving and driving demand management services, while demand control apparatuses for general customers and Electricity Safety Associations nationwide, smart meter systems development for condominiums, and network and serial linking of in-home energy display units are ramping up.

We are engaged in new product development for the handheld terminal business. Features being pursued are a high level of impact resistance and environmental durability. Efforts also include a comprehensive meter-reading system development that adapts to various communication methods, so that an optimum system can offer wireless meter reading to match the plant environment of customers and automated meter reading across multiple media.

The R&D expenses of this segment totaled 1,787 million yen.

(B) FPD assembling equipments business

Principal products for this segment are manufacturing equipment for mounting FPD modules and fine semiconductors and also constitute the target of development.

Product quality improvement that addresses high definition is critical for FPD module mounting processes. The need for improved inspection technology is paramount, as well as mounting technologies for fine, thin parts as a consequence of compactness and thinness being pursued for products. R&D activities consequently mainly focused on independently achieving the needs for performance improvement and deploying the developed component technologies into our own products.

Component technology development common across apparatuses was the main focus. The general administrative expenses thus entered for the consolidated fiscal year under report totaled 28 million yen. Customized development expenses accruing to individual orders were mainly treated as manufacture costs for the respective orders. R&D expenses are not classed, however, since the portions specific to R&D within manufacture costs are difficult to allocate.

(C) Real estate business

Research and development are not conducted for this segment.

8. Plant and Facilities

Overview of Capital Expenditures

The corporate group continually programs capital expenditures for purposes of maintaining and increasing production capacity, and fulfilling and reinforcing R&D functions. Capital expenditures totaled 2,232 million yen for the consolidated fiscal year under report.

The Measurement and Control Equipment Business invested 1,388 million yen mainly in facilities associated with electricity meters, the FPD Assembly Equipment Business invested 22 million yen, and the Real Estate Business invested 821 million yen.

There were no disposals or sales of material facilities.

9. Corporate Governance

(1) Fundamental Approach to Corporate Governance

Osaki Electric views the interests of stakeholders including shareholders with serious emphasis. We recognize comprehensive corporate governance as a very important management issue in a mission to maximize lasting enterprise value. The corporate group will improve management efficiency and transparency further, and aim for fair management practices. We will also make efforts in pro-active, prompt information disclosures, and enhance disclosures such as corporate details through the Internet.

(2) Overview of Corporate Governance Organization

① Corporate Governance Organization

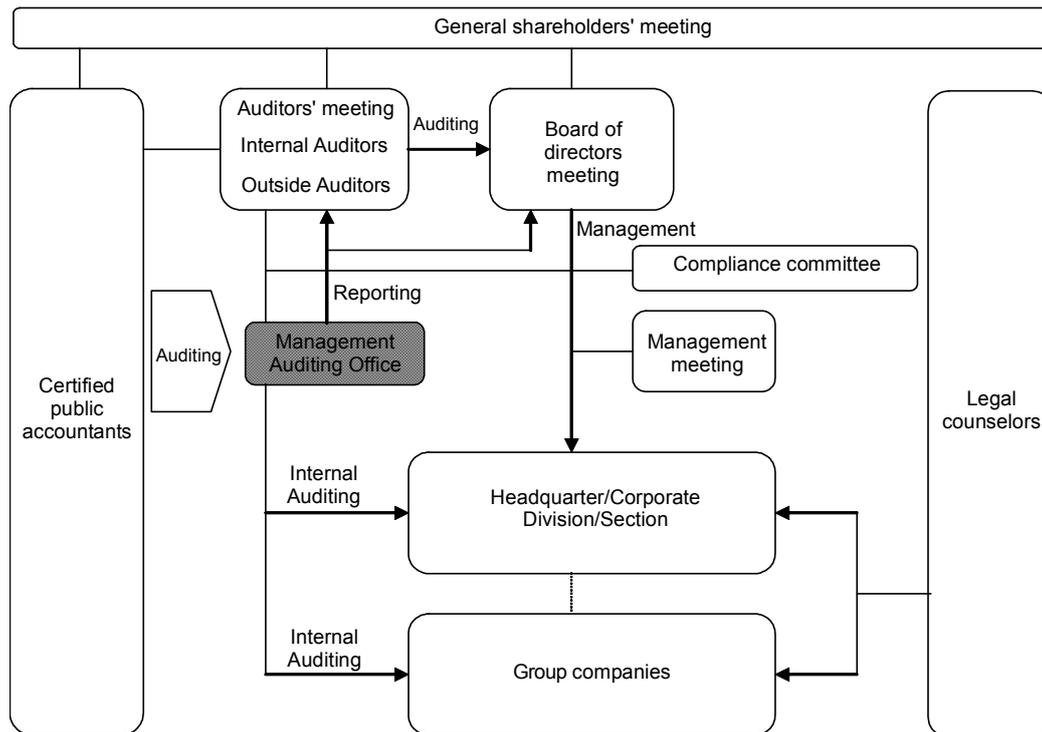
Osaki Electric adopts a statutory auditor system. Although the company does not appoint outside directors, the audit organization constituted by statutory auditors including outside auditors is considered appropriate as a management oversight function. The auditors consist of four members, of which two are outside auditors.

The board of directors consists of fifteen members, of whom none appointed are outside directors. Four of these members have employment experience from external companies, and participate in management with their objective outlook.

The board of directors is positioned as an organization that not only decides important matters established by law and basic management policy, but also oversees the execution of business activities. In principle, the board of directors holds monthly meetings and convenes further if necessary. This practice allows the board to respond dynamically to management environment changes and service efficient operations. As the assisting function of the board meeting, management meetings attended by senior directors are held weekly in principle, in order to conduct decision-making for daily business execution and to discuss management issues

With regard to compliance, the compliance committee is established to oversee compliance to all laws and regulations and social norms, and to set forth the code of practice and compliance manual at Osaki Electric group companies to instill the purposes of compliance. The committee also issues the compliance handbook to promote compliance awareness and maintain compliance organizations. Concerning legal and accounting matters, nevertheless, the committee receives appropriate advice from experts such as legal counsel and certified public accountants to satisfy legal compliance

The following is a diagram of the corporate governance system



② Organization of Internal Controls System

Based on the Companies Law and its enactment rules, we have established fundamental policy for structuring the internal controls system, and maintain the system accordingly to secure proper operational duties as follows:

a) Organization that secures conformance to the law and articles of incorporation with respect to execution of duties by directors and employees

- * The company establishes the compliance committee, which sets forth the code of practice and compliance manual at Osaki Electric group companies and issues the compliance handbook to promote thorough common knowledge and compliance so that officers and employees observe the law, the articles of incorporation, internal company rules, and social norms.
- * The head of the helpline system (President and COO) and persons in charge, through appropriate operations, shall institute early detection and correction to violations of the law and unlawful conduct by officers and employees, and make efforts to strengthen the compliance organization.

b) Organization for storing and managing information related to execution of duties by directors

- * Information and documents related to the execution of duties by directors should be recorded on paper or electromagnetic media and appropriately stored and administered in accordance with board of directors meeting rules and internal corporate rules.
- * Directors and statutory auditors are entitled to have access to these documents during business hours.

c) Rules and other organizations related to managing risk of loss

- * Each department as well as each committee (Compliance, Quality Control, Environmental Conservation, Product Liability, Export Administration) shall identify, analyze, and assess risks according to the Risk Management Rules and the Basic Policy for Risk Management, and prepare a Risk Map. Any recognized risk shall have necessary countermeasures instituted to reduce such a risk.
- * Headed by the President and COO, the Internal Auditing Office is installed to conduct internal audits.
- * The Internal Auditing Office audits the risk management status for each department through an internal audit. The office reports the results periodically at board meetings, where improvement measures will be deliberated and decided.

d) Organization to secure efficient execution of duties by directors

- * Companywide goals shared by officers and employees are established at the beginning of each year, and each department prepares a specific annual operating plan to achieve the goals. Furthermore, achievement of the goals is reviewed monthly and quarterly. Feedback of the results secures effectiveness and efficiency of operations.
- * The board of directors meetings are held monthly in principle, and may convene as necessary to respond efficiently to dynamic changes in the management environment.
- * In principle, management meetings composed of senior directors are held weekly to conduct multi-faceted studies and discussions over management issues that affect the corporate group. Matters for resolution at a board meeting are tabled for discussion and deliberation at that venue.
- * Execution of daily duties shall be based in accordance with occupational duty authority rules and internal approval process rules.

e) Organization to secure appropriateness of duties for the corporate group composed of the parent company and its subsidiaries

- * Based on management rules of the Osaki Electric Group, the corporate strategy office in conjunction with related departments shall plan and implement various measures to enhance effectiveness of the internal controls system at each subsidiary and provide guidance and support to the subsidiaries.
- * The Internal Auditing Office implements the internal audits in consultation with each of the subsidiaries according to plan, audits the appropriateness and efficiency of duties, and makes efforts for reinforcement and improvement of the compliance organization.
- * With the group helpline system, detecting and correcting violations of the law and unlawful conduct by officers and employees of the corporate group can be instituted and thus be applied to efforts to reinforce the compliance organization.
- * Operations should be based on basic internal controls policy related to financial reporting, and reliability of financial reporting required by the Financial Instruments and Exchange Law should be secured.
- * In addition to establishing a manual for handling anti-social forces, the company shall introduce a clause calling for the exclusion of organized crime to basic contract documents. As a member of society, the company shall refrain from holding any relations with anti-social forces that threaten the order and safety of civic society, and shall respond to any eventuality with a resolute attitude.

f) Items regarding employee status and employee independence from directors whenever the board of auditors requests duties from any employee for assistance.

- * Employees in such positions shall be dedicated to assisting the duties of the auditor.
- * Such employees shall not hold any co-duties in a post to execute duties of the company, shall conduct their duties under the auditor's direction and command, and shall submit to transfers with consent of the auditor.

g) Reporting organization to statutory auditors by director or employee, other reporting organization to statutory auditors

- * Directors and employees, when they learn of any facts concerning significant violation of the law or articles of incorporation, facts of unlawfulness, or facts that may impose significant damages to the corporate group, shall report such matters to the board of auditors without delay.
- * In addition to items prescribed by law, directors and employees shall report items that may have a serious effect on the corporate group, the implementation status of internal audits, and notifications regarding the group helpline system and their details to the board of auditors without delay.

h) Other organizations to secure effective auditing by statutory auditors

- * The board of directors shall secure the attendance of statutory auditors to board meetings, management meetings, and other important meetings in order to secure appropriateness of duties
- * The representative director shall secure opportunities to regularly exchange opinions with the statutory auditors.

Consolidated Financial Statements

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Consolidated Balance Sheets

Osaki Electric Co., Ltd. and Consolidated Subsidiaries

March 31, 2011 and 2012

ASSETS	Millions of yen		Thousands of U.S.dollars
	2011	2012	2012
Current assets:			
Cash and cash equivalents (Note 4)	¥ 5,912	¥ 10,645	\$ 129,527
Deposits (Note 4)	7,285	2,062	25,089
Notes and accounts receivable, trade	11,490	16,259	197,832
Finished products	1,911	3,512	42,735
Work in process	2,190	2,214	26,947
Raw materials, purchased components and supplies	2,115	4,349	52,914
Deferred income taxes	944	1,015	12,351
Other current assets	1,037	2,047	24,917
Allowance for doubtful receivables	(54)	(107)	(1,313)
Total current assets	32,833	41,999	511,004
Fixed assets:			
Property, plant and equipment			
Buildings and structures	19,086	19,593	238,396
Less-accumulated depreciation	(12,263)	(12,366)	(150,458)
Total buildings and structures	6,823	7,227	87,938
Machinery and equipment	11,022	12,814	155,910
Less-accumulated depreciation	(9,101)	(10,560)	(128,489)
Total machinery and equipment	1,921	2,253	27,421
Land	12,236	12,375	150,577
Lease assets	224	3,587	43,650
Less-accumulated depreciation	(99)	(752)	(9,152)
Total lease assets	125	2,835	34,498
Construction in progress	358	1,173	14,278
Other fixed assets	7,093	7,088	86,247
Less-accumulated depreciation	(6,295)	(6,443)	(78,397)
Total other fixed assets	797	645	7,849
Net property, plant and equipment	22,261	26,511	322,564
Intangible assets			
Goodwill	-	3,185	38,756
Other intangible assets	534	566	6,889
Total intangible assets	534	3,751	45,646
Investments and other assets			
Investment securities (Note 5)	3,300	3,527	42,918
Deferred income taxes	669	696	8,474
Prepaid pension cost	286	439	5,349
Other assets	3,172	2,436	29,639
Allowance for doubtful receivables	(7)	(9)	(117)
Total investments and other assets	7,422	7,090	86,264
Total fixed assets	30,218	37,353	454,474
TOTAL	¥ 63,051	¥ 79,352	\$ 965,479

See notes to consolidated financial statements

Consolidated Balance Sheets

Osaki Electric Co., Ltd. and Consolidated Subsidiaries

March 31, 2011 and 2012

LIABILITIES AND EQUITY	Millions of yen		Thousands of U.S.dollars
	2011	2012	2012
Current liabilities:			
Notes and accounts payable, trade	¥ 5,181	¥ 6,823	\$ 83,023
Short-term debt (Note 6)	1,784	18,481	224,869
Current portion of bonds (Note 7)	4,500	-	-
Accrued income taxes	823	509	6,199
Accrued bonuses allowance	1,267	1,419	17,274
Accrued bonuses allowance for directors	15	226	2,753
Allowance for product warranties	26	29	358
Other current liabilities	2,671	5,393	65,627
Total current liabilities	16,270	32,884	400,106
Long-term liabilities:			
Long-term debt (Note 6)	505	3,246	39,500
Lease obligation	1,315	1,365	16,619
Accrued retirement allowances	1,193	1,318	16,046
Accrued retirement allowances for directors	226	205	2,501
Consolidation adjusting accounts	936	780	9,495
Deferred income taxes	2,409	2,521	30,676
Other long-term liabilities	893	824	10,028
Total long-term liabilities	7,479	10,262	124,868
Total liabilities	23,749	43,147	524,975
Contingent liabilities (Note 8)			
Equity:			
Shareholders' equity			
Common stock:			
Authorized – 100,000,000 shares			
Issued 2012 – 38,550,684 shares and			
Issued 2011 – 38,550,684 shares	4,686	4,686	57,022
Capital surplus	4,770	4,775	58,102
Retained earnings	16,685	17,586	213,967
Treasury stock, at cost:			
2,900,482 shares in 2012 and			
1,132,183 shares in 2011	(505)	(1,848)	(22,491)
Total shareholders' equity	25,637	25,199	306,601
Accumulated other comprehensive income			
Unrealized gains on securities	(117)	(161)	(1,962)
Foreign currency translation adjustments	(487)	(506)	(6,159)
Total accumulated other comprehensive income	(605)	(667)	(8,121)
Stock acquisition rights (Note 9)	138	191	2,334
Minority interests	14,131	11,481	139,688
Total equity	39,301	36,204	440,503
TOTAL	¥ 63,051	¥ 79,352	\$ 965,479

See notes to consolidated financial statements

Consolidated Statements of Income

Osaki Electric Co., Ltd. and Consolidated Subsidiaries
 Years ended March 31, 2010, 2011 and 2012

	Millions of yen			Thousands of U.S.dollars
	2010	2011	2012	2012
Net sales	¥ 46,774	¥ 45,975	¥ 47,362	\$ 576,252
Cost of sales	34,453	33,049	34,449	419,142
Gross profit	12,321	12,925	12,912	157,109
Selling, general and administrative expenses (Note 10)	9,310	9,100	9,583	116,601
Operating income	3,011	3,825	3,329	40,508
Non-operating income:				
Interest income	35	31	22	272
Dividend income	89	99	125	1,525
Amortization of consolidation adjusting accounts	156	156	156	1,899
Subsidy income	52	23	-	-
Others	90	119	91	1,111
	423	430	395	4,808
Non-operating expenses:				
Interest expenses	63	51	56	692
Foreign exchange loss	7	11	107	1,305
Commitment fee	24	18	309	3,767
Others	38	20	35	432
	133	101	509	6,197
Ordinary income	3,301	4,154	3,215	39,118
Extraordinary gains:				
Gain on sales of property, plant and equipment	3	3	7	93
Gain on sales of memberships	6	0	38	466
Reversal of doubtful accounts provision	-	2	-	-
	9	6	46	560
Extraordinary losses:				
Loss on sales of property, plant and equipment	-	-	25	309
Impairment losses	-	-	417	5,081
Loss on disposal of property, plant and equipment	39	47	101	1,232
Devaluation of investment securities	-	944	235	2,859
Loss on valuation of stocks of subsidiaries and affiliates	205	-	-	-
Provision for loss of subsidiaries and affiliates	100	-	-	-
Loss on liquidation of subsidiaries and affiliates	-	-	45	547
Structure improvement expenses	124	142	-	-
Devaluation of memberships	6	6	5	64
Extraordinary retirement benefit	-	26	-	-
Loss on change in retirement benefit plan	41	-	-	-
Loss on adjustment for changes of accounting standard for asset retirement obligations	-	154	-	-
	517	1,322	829	10,094
Income before income taxes and minority interests	2,794	2,838	2,431	29,584
Income taxes				
Current	1,130	1,265	693	8,441
Deferred	242	(65)	(197)	(2,396)
	1,372	1,199	496	6,044
Income before minority interests	1,421	1,639	1,934	23,540
Minority interests in consolidated subsidiaries	320	619	595	7,245
Net income	¥ 1,101	¥ 1,020	¥ 1,339	\$ 16,294

See notes to consolidated financial statements

Consolidated Statements of Comprehensive Income

Osaki Electric Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2010, 2011 and 2012

	Millions of yen			Thousands of U.S.dollars
	2010	2011	2012	2012
Income before minority interests	¥ 1,421	¥ 1,639	¥ 1,934	\$ 23,540
Other comprehensive income				
Unrealized gains on securities	204	(75)	(43)	(524)
Foreign currency translation adjustments	66	(29)	(22)	(269)
	270	(104)	(65)	(793)
Comprehensive income	¥ 1,692	¥ 1,534	¥ 1,869	\$ 22,746
Comprehensive income attributable to owners of the parent	1,360	922	1,277	15,537
Comprehensive income attributable to minority interests	331	612	592	7,208

Consolidated Statements of Changes in Equity

Osaki Electric Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2010, 2011 and 2012

	Millions of yen					
	Shareholders' equity					
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	
Balance at March 31, 2009	¥ 4,686	¥ 4,768	¥ 15,518	¥ (452)	¥ 24,521	
Cash dividends paid			(505)		(505)	
Net income			1,101		1,101	
Purchase of treasury stock				(46)	(46)	
Net changes of items other than shareholders' equity						
Balance at March 31, 2010	4,686	4,768	16,114	(499)	25,070	
Cash dividends paid			(449)		(449)	
Net income			1,020		1,020	
Purchase of treasury stock				(7)	(7)	
Disposal of treasury stock		1		1	3	
Net changes of items other than shareholders' equity						
Balance at March 31, 2011	4,686	4,770	16,685	(505)	25,637	
Cash dividends paid			(438)		(438)	
Net income			1,339		1,339	
Purchase of treasury stock				(1,350)	(1,350)	
Disposal of treasury stock		5		7	12	
Net changes of items other than shareholders' equity						
Balance at March 31, 2012	¥ 4,686	¥ 4,775	¥ 17,586	¥ (1,848)	¥ 25,199	

	Thousands of U.S.dollars					
	Shareholders' equity					
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	
Balance at March 31, 2011	\$ 57,022	\$ 58,038	\$ 203,007	\$ (6,144)	\$ 311,924	
Cash dividends paid			(5,334)		(5,334)	
Net income			16,294		16,294	
Purchase of treasury stock				(16,432)	(16,432)	
Disposal of treasury stock		63		86	149	
Net changes of items other than shareholders' equity						
Balance at March 31, 2012	\$ 57,022	\$ 58,102	\$ 213,967	\$ (22,491)	\$ 306,601	

	Millions of yen					
	Accumulated other comprehensive income			Stock Acquisition rights	Minority interests	Total equity
	Unrealized gains on securities	Foreign Currency Translation adjustments	Total accumulated other comprehensive income			
Balance at March 31, 2009	¥ (248)	¥ (518)	¥ (766)	-	¥ 14,040	¥ 37,795
Cash dividends paid						(505)
Net income						1,101
Purchase of treasury stock						(46)
Net changes of items other than shareholders' equity	203	56	259	74	(98)	235
Balance at March 31, 2010	(45)	(462)	(507)	74	13,941	38,578
Cash dividends paid						(449)
Net income						1,020
Purchase of treasury stock						(7)
Disposal of treasury stock						3
Net changes of items other than shareholders' equity	(72)	(25)	(98)	64	189	155
Balance at March 31, 2011	(117)	(487)	(605)	138	14,131	39,301
Cash dividends paid						(438)
Net income						1,339
Purchase of treasury stock						(1,350)
Disposal of treasury stock						12
Net changes of items other than shareholders' equity	(43)	(18)	(62)	53	(2,650)	(2,658)
Balance at March 31, 2012	¥ (161)	¥ (506)	¥ (667)	¥ 191	¥ 11,481	¥ 36,204

	Thousands of U.S.dollars					
	Accumulated other comprehensive income			Stock Acquisition rights	Minority interests	Total equity
	Unrealized gains on securities	Foreign Currency Translation adjustments	Total accumulated other comprehensive income			
Balance at March 31, 2011	\$ (1,434)	\$ (5,930)	\$ (7,364)	\$ 1,684	\$ 171,931	\$ 478,176
Cash dividends paid						(5,334)
Net income						16,294
Purchase of treasury stock						(16,432)
Disposal of treasury stock						149
Net changes of items other than shareholders' equity	(528)	(228)	(756)	650	(32,243)	(32,349)
Balance at March 31, 2012	\$ (1,962)	\$ (6,159)	\$ (8,121)	\$ 2,334	\$ 139,688	\$ 440,503

See notes to consolidated financial statements

Consolidated Statements of Cash Flows

Osaki Electric Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2010, 2011 and 2012

	Millions of yen			Thousands of U.S.dollars
	2010	2011	2012	2012
Cash flows from operating activities :				
Income before income taxes and minority interests	¥ 2,794	¥ 2,838	¥ 2,431	\$ 29,584
Adjustments to reconcile net income to net cash provided by operating activities -				
Depreciation and amortization	2,069	1,993	2,021	24,595
Impairment losses	-	-	417	5,081
Amortization of consolidation adjusting accounts	(156)	(156)	(156)	(1,899)
Increase (decrease) in allowance for doubtful receivables	0	(22)	43	528
Increase (decrease) in accrued bonuses allowance	(15)	56	(5)	(68)
Increase (decrease) in accrued bonuses allowance for directors	(20)	(2)	-	-
Increase (decrease) in allowance for product warranties	(88)	0	1	13
Increase (decrease) in provision for loss of subsidiaries and affiliates	100	(100)	-	-
Increase (decrease) in accrued retirement allowances	47	284	130	1,590
Increase (decrease) in accrued retirement allowances for directors	(717)	28	(21)	(256)
Increase (decrease) in long-term accounts payable-other	692	(23)	-	-
Interest and dividend income	(124)	(131)	(147)	(1,798)
Interest expenses	63	51	56	692
(Gain) loss on sales of property, plant and equipment	(3)	(3)	17	215
Loss on disposal of property, plant and equipment	39	47	101	1,232
Devaluation of investment securities	-	944	235	2,859
(Gain) loss on sales of memberships	(6)	(0)	(38)	(466)
Devaluation of memberships	6	6	5	64
Loss on liquidation of affiliates	-	-	45	547
Structure improvement expenses	124	142	-	-
Loss on adjustment for changes of accounting standard for asset retirement obligations	-	154	-	-
Loss on valuation of stocks of subsidiaries and affiliates	205	-	-	-
(Increase) decrease in notes and accounts receivable	(322)	(992)	(592)	(7,205)
(Increase) decrease in inventories	1,453	(461)	426	5,184
Increase (decrease) in notes and accounts payable	(923)	604	(452)	(5,499)
Increase (decrease) in advances received	4	0	-	-
Other, net	(132)	7	177	2,155
Interest and dividend received	123	132	147	1,798
Interest paid	(64)	(51)	(57)	(699)
Income taxes paid	(615)	(1,390)	(1,953)	(23,763)
Net cash provided by (used in) operating activities	4,533	3,959	2,834	34,487
Cash flows from investing activities :				
Payments for property, plant and equipment	(3,165)	(1,728)	(2,214)	(26,937)
Proceeds from sales of property, plant and equipment	27	63	153	1,869
Payments for intangible assets	(161)	(110)	(256)	(3,125)
Payments for investment securities	(87)	(167)	(426)	(5,187)
Proceeds from sales of investment securities	-	6	-	-
Payment for memberships	(68)	(28)	(34)	(413)
Proceeds from sales of membership	-	-	91	1,114
Payments for long-term deposits	-	(1,000)	-	-
Proceeds from refund of long-term deposits	1,000	1,000	1,000	12,166
Decrease (increase) in time deposits	(2,000)	2,000	-	-
Payments for acquisition of shares of subsidiaries	-	-	(8,625)	(104,941)
Other, net	83	(30)	(29)	(355)
Net cash provided by (used in) investing activities	(4,370)	5	(10,340)	(125,811)
Cash flows from financing activities :				
Increase (decrease) in short-term debt, net	(39)	9	17,332	210,880
Proceeds from long-term debt	700	200	1,000	12,166
Payments for long-term debt	(1,097)	(767)	(1,775)	(21,596)
Payments for redemption of bonds	-	-	(4,500)	(54,751)
Repayment of lease obligation	(36)	(56)	(71)	(866)
Cash dividends paid	(506)	(449)	(440)	(5,355)
Payments for dividends to minority shareholders	(435)	(424)	(434)	(5,289)
Payments for treasury stock	(46)	(7)	(1,350)	(16,432)
Purchase of treasury stock of subsidiaries in consolidation	-	-	(2,850)	(34,687)
Other, net	-	-	0	0
Net cash provided by (used in) financing activities	(1,462)	(1,495)	6,909	84,068
Effect of exchange rate changes on cash and cash equivalents	2	(9)	42	520
Net increase (decrease) in cash and cash equivalents	(1,296)	2,459	(553)	(6,735)
Cash and cash equivalents at beginning of year (Note 4)	12,034	10,738	13,197	160,570
Cash and cash equivalents at end of year (Note 4)	¥ 10,738	¥ 13,197	¥ 12,643	\$ 153,834

See notes to consolidated financial statements

Notes to Consolidated Financial Statements

Osaki Electric Co., Ltd. and Consolidated Subsidiaries

1. Summary of significant accounting policies

Osaki Electric Co., Ltd. (the "Company") and its subsidiaries in Japan maintain their records and prepare their financial statements in accordance with accounting principles generally accepted in Japan while its foreign subsidiaries maintain their records and prepare their financial statements in conformity with accounting principles generally accepted in the countries of their domiciles.

(1) Basis of consolidation and accounting for investments in affiliated companies

The consolidated financial statements include the accounts of the Company and those of its majority-owned subsidiary companies. All intercompany transactions and accounts are eliminated.

(2) Foreign currency translation

The balance sheet accounts of the foreign consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except for the components of shareholders' equity, which are translated at their historical exchange rates. Also, income and expense accounts are translated into yen at the rates of exchange in effect at the balance sheet date. Foreign currency translation adjustments are presented as a component of shareholders' equity and minority interests in its consolidated financial statements.

(3) Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

(4) Marketable securities

Investments in securities with market quotations are stated at fair value, which represents the market prices at the balance sheet date. (Unrealized gain / loss are included as a separate component in shareholders' equity, net of tax, while cost is determined by the moving average method). Investments in securities without market quotations are stated at cost, which is determined by the moving average method. The amortized cost method with straight-line amortization is applied to held-to-maturity securities.

(5) Inventories

Finished products and work in process are stated at cost, which is principally determined by the moving average method or the periodic average method (computed by lowering the value on the balance sheets from book value to account for any decline in earnings-generation capacity of such assets). Individual order products are stated at cost, which is determined by the identified cost method (computed by lowering the value on the balance sheets from book value to account for any decline in earnings-generation capacity of such assets). Raw materials, purchased components and supplies are stated at cost, which is principally determined by the moving average method (computed by lowering the value on the balance sheets from book value to account for any decline in earnings-generation capacity of such assets).

(6) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is principally computed on the declining-balance method for the Company and Japanese subsidiaries and on the straight-line method for foreign subsidiary companies at rates based on estimated useful lives of the assets as prescribed by Japanese tax law.

(7) Intangible assets

Intangible assets are amortized by the straight-line method. However, the software for internal use is amortized over an estimated useful life (5 years) by the straight-line method.

(8) Finance lease

The finance lease transactions without transferring the right of ownership processed under the accounting standards for general purchase and sale transactions. The Company adopted the straight-line method for the depreciation of lease assets under a finance lease transaction without transferring the right of ownership with the leasing period as a useful life and a residual value as zero.

(9) Allowance for doubtful receivables

Allowance for doubtful receivables is calculated based on the aggregate amount of estimated credit losses on doubtful receivables, plus an amount for receivables other than doubtful receivables calculated using historical write-off experience ratios from certain prior periods.

(10) Accrued bonuses allowance

To prepare for the payment of bonus to employees, an allowance is added up in consideration of the estimated amount of payment.

(11) Accrued bonuses allowance for directors

At one consolidated subsidiaries, to prepare for the payment of bonus to directors, an allowance is added up in consideration of the estimated amount of payment.

(12) Accrued retirement allowances

To prepare for the payment of employee retirement allowance, the Company and its consolidated subsidiaries provide accrued retirement allowance based on projected benefits obligations and the fair value of pension assets at the end of this consolidated fiscal year. Additionally, the pension assets of the Company exceeded retirement allowance liabilities at the end of this consolidated fiscal year, and this excess amount is recorded as the prepaid pension cost in investments and other assets. Actuarial differences are charged to expenses from next consolidated fiscal year using a straight-line method based on determined years (principally 10 years) within the average remaining years of service of employees when incurred.

(13) Accrued retirement allowances for directors

Consolidated subsidiaries recorded an allowance for retirement benefits for directors equivalent to the amount payable at the end of the consolidated fiscal year under review, in accordance with the rules for retirement benefits for directors.

2. U.S.Dollar amounts

U.S.dollar amounts presented in the financial statements are included solely for the convenience of the reader. These translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into U.S.dollars. As the amounts shown in U.S.dollars are for convenience only, the rate of ¥82.19 = U.S.\$1, the approximate current rate at March 31, 2012, has been used for the purpose of presentation of the U.S.dollar amounts in the accompanying consolidated financial statements.

3. Business combination

(Business combination by acquisition)

(1) Overview of business combination

- (a) Name and business description of the acquired corporation

SMB United Limited

Production and sales of watt-hour meter, switchgear

- (b) Principal reasons for the business combination

The Company operates in the meter (watt-hour meter) business and switchgear business, and markets meter products primarily in Australia, New Zealand, and Europe. Therefore, we believe that it will accelerate our business development efforts in the Asian and European markets. By its consolidation into Osaki Group, we expect strong growth in the global meter market, an area which was relatively weak in our business portfolio. We also expect that this integration will further consolidate and strengthen the Group's business base.

- (c) Date of business combination

December 31, 2011 (deemed acquisition date)

- (d) Legal form of acquisition

Acquisition of stock through a takeover bid

- (e) Name of the corporation after the business combination

Unmodified

- (f) Acquired voting rights ratio

100 percent

- (g) Principal reason for making determination of acquiring company

Acquisition of stock in return of cash by the Company

(2) Period for the acquired business included in the consolidated financial statements

Although the date regarded as the acquisition date is December 31, 2011, the difference between the consolidated closing date is not exceeded three months; therefore, results of the acquired company is not included in the Consolidated Statements of Income.

(3) Acquisition cost and details of the acquired company

	Millions of yen
Acquisition cost	
market price of ordinary stock acquired of SMB United Limited	¥ 12,524
Expenditures paid directly at acquisition	
Advisory fee and other costs	228
Total	12,752

(4) Goodwill

- (a) Amount of goodwill
3,185 million yen
- (b) Substance of goodwill
This is mainly based on future excess earning power that is expected to incur from upcoming business developments.
- (c) Amortization method
Straight-line method over 10 years

(5) Amount of assets received and liabilities assumed on the date of acquisition

	Millions of yen	
Current assets	¥	12,046
Fixed assets		4,170
Total		16,216
Current liabilities		4,381
Fixed liabilities		2,225
Total		6,606
Minority interests		42

4. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	Millions of yen		Thousands of
	2011	2012	U.S.dollars
As of March 31			2012
Cash and cash equivalents in the balance sheets	¥ 5,912	¥ 10,645	\$ 129,527
Deposits	7,285	2,062	25,089
Total	13,197	12,707	154,616
Time deposits	-	(64)	(782)
Cash and cash equivalents in the cash flow statements	13,197	12,643	153,834

5. Investment securities

Investment securities comprise the following:

	Millions of yen		Thousands of
	2011	2012	U.S.dollars
As of March 31			2012
Available-for-sale securities			
Acquisition cost	¥ 2,705	¥ 2,578	\$ 31,374
Fair value	2,559	2,448	29,785
Net unrealized gain	(145)	(130)	(1,588)

The Company devaluated available-for-sale securities by 944 million yen previous consolidated fiscal year, and by 235 million yen this consolidated fiscal year.

	Millions of yen		Thousands of
	2011	2012	U.S.dollars
As of March 31			2012
Investments in unconsolidated subsidiaries and affiliates	¥ 106	¥ 69	\$ 841
Investments in equity method affiliates	-	59	723
Investments in non-public companies and others	633	950	11,568

6. Short-term debt and Long-term debt

Short-term debt and long-term debt comprise the following:

As of March 31	Millions of yen		Thousands of U.S.dollars
	2011	2012	2012
Short-term debt:			
Unsecured	¥ 9	¥ 17,414	\$ 211,878
Secured	-	320	3,897
Current portion of long-term debt	1,775	747	9,092
Net short-term debt	1,784	18,481	224,869

As of March 31	Millions of yen		Thousands of U.S.dollars
	2011	2012	2012
Long-term debt:			
Unsecured	¥ 2,280	¥ 1,809	\$ 22,014
Secured	-	2,184	26,578
Less current portion	1,775	747	9,092
Net long-term debt	505	3,246	39,500

7. Bonds

Bonds comprise the following:

As of March 31	Millions of yen		Thousands of U.S.dollars
	2011	2012	2012
Unsecured zero coupon convertible bonds in yen, due March 2012	¥ 4,500	¥ -	\$ -

8. Contingent liabilities

Contingent liabilities comprise the following:

As of March 31	Millions of yen		Thousands of U.S.dollars
	2011	2012	2012
Guarantee amounts	¥ 100	¥ 74	\$ 908

9. Stock acquisition rights

Stock acquisition rights comprise the following:

As of March 31	Millions of yen		Thousands of U.S.dollars
	2011	2012	2012
Stock acquisition rights as the stock options	¥ 138	¥ 191	\$ 2,334

10. Research and development expenses

Research and development expenses comprise the following:

As of March 31	Millions of yen			Thousands of U.S.dollars
	2010	2011	2012	2012
Selling, general and administrative expenses	¥ 1,679	¥ 1,659	¥ 1,816	\$ 22,096

1 1 . Segment information

The business of the Company and its consolidated subsidiaries is divided into the following three categories.

Measurement and control equipments:

Watt-hour meters, Current limiter, Instrument VCT, Distribution panels & Supervisory control boards, Time switches, Optical communication device, Meter reading systems.

FPD assembling equipments:

LCD assembling equipment, PDP assembling equipment, RFID related assembling equipment (IC card and IC tag), Semi-conductor assembling equipment.

Real estate: Estate for rent

Business segments –

	Millions of yen					
	2011					
Year ended March 31	Measurement and control equipments	FPD assembling equipments	Real estate	Total	Elimination	Consolidated
Sales to customers	¥ 41,802	¥ 3,801	¥ 371	¥ 45,975	-	¥ 45,975
Intersegment sales	26	-	112	138	(138)	-
Total sales	41,829	3,801	483	46,114	(138)	45,975
Operating income	3,472	168	170	3,811	14	3,825

The segment income is adjusted by provision of allowance for doubtful accounts.

	Millions of yen					
	2012					
Year ended March 31	Measurement and control equipments	FPD assembling equipments	Real estate	Total	Adjustment	Consolidated
Sales to customers	¥ 43,946	¥ 3,074	¥ 340	¥ 47,362	-	¥ 47,362
Intersegment sales	27	7	104	139	(139)	-
Total sales	43,974	3,081	445	47,502	(139)	47,362
Operating income	3,104	84	140	3,329	-	3,329

	Thousands of U.S.dollars					
	2012					
Year ended March 31	Measurement and control equipments	FPD assembling equipments	Real estate	Total	Adjustment	Consolidated
Sales to customers	\$ 534,700	\$ 37,406	\$ 4,145	\$ 576,252	-	\$ 576,252
Intersegment sales	340	85	1,277	1,702	(1,702)	-
Total sales	535,040	37,492	5,422	577,954	(1,702)	576,252
Operating income	37,767	1,032	1,707	40,508	-	40,508

Independent Auditor's Report

HARA AUDIT CORPORATION

264 New-Ohtemachi Bldg.
2-2-1, Ohtemachi, Chiyoda-ku
Tokyo 100-0004, JAPAN

To the Shareholders and Board of Directors of
Osaki Electric Company, Limited

We have audited the accompanying consolidated balance sheets of Osaki Electric Company, Limited (the "Company") and its consolidated subsidiaries as of March 31, 2011 and 2012, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the years ended March 31, 2011 and 2012, and the related notes, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as of March 31, 2011 and 2012, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Also, in our opinion, the translated amounts in the accompanying consolidated financial statements translated into U.S. dollars have been computed on the basis set forth in Note 2 to the consolidated financial statements.

Hara Audit Corporation

Tokyo Japan

June 22, 2012

Osaki Group Companies

COUNTRY	COMPANY	SEGMENT
JAPAN	OSAKI ELECTRIC CO., LTD.	● ●
	ENEGATE CO., LTD.	●
	OSAKI ELECTRIC SYSTEMS CO., LTD.	●
	IWATE OSAKI ELECTRIC CO., LTD.	●
	OSAKI DATATECH CO., LTD.	●
	OSAKI ENGINEERING CO., LTD.	●
	OSAKI ESTATE CO., LTD.	●
SINGAPORE	SMB UNITED LIMITED	●
	EDMI LIMITED	●
MALAYSIA	SMB UNITED INDUSTRIES SDN BHD	●
INDONESIA	PT. METBELOSA	●

- Measurement and control equipments
- FPD assembling equipments
- Real estate

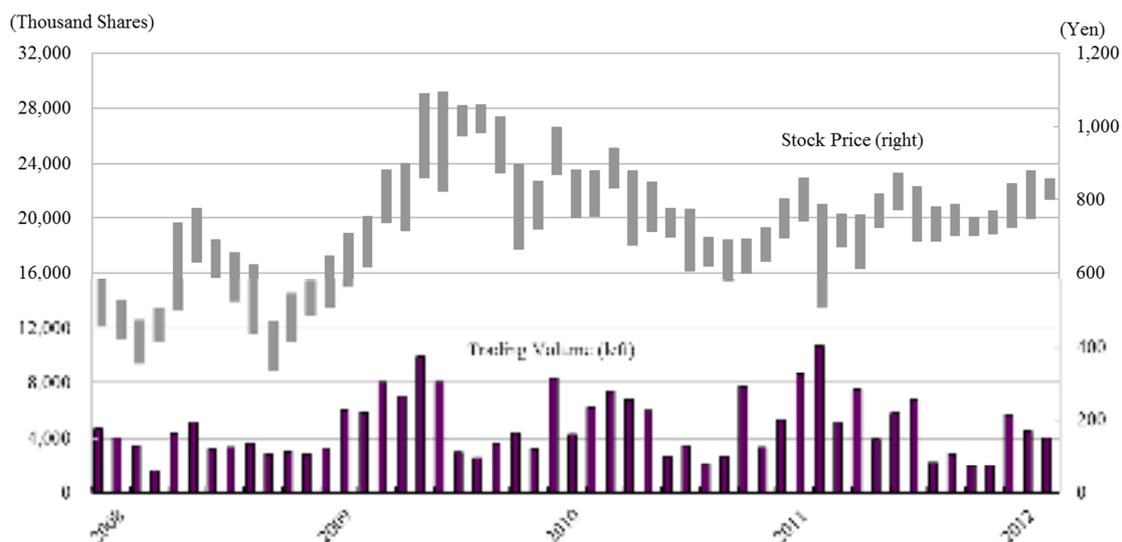
Stock Information

(As of March 31, 2012)

Common Stock

Authorized	:	100,000,000
Issued	:	38,550,684
Number of Shareholders	:	4,049

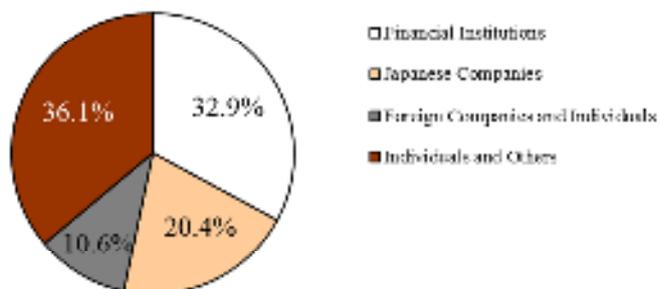
Stock Price Range and Trading Volume (Tokyo Stock Exchange)



Major Shareholders

	Number of shares (Thousand shares)	(%)
Japan Trustee Services Bank, Ltd. (Trust Account)	2,549	7.1
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,545	7.1
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,552	4.3
Osaki Electric cooperation company share holding commission	1,258	3.5
Yoshihide Watanabe	1,150	3.2

Breakdown of Shareholders



Investor Information

(As of March 31, 2012)

Management

REPRESENTATIVE DIRECTORS

Chairman and CEO

Yoshihide Watanabe

President and COO

Yoshio Matsui

Executive Vice President

Mitsuyasu Watanabe

DIRECTORS

Senior Managing Director

Haruyuki Kawabata

Managing Directors

Yukio Kimura

Sumio Takano

Kazuo Nemoto

Directors

Kuniaki Numazaki

Toshio Yamanaka

Satoshi Komazawa

Choichiro Hori

Shigeru Mizuta

Hiroyuki Yokoi

Masakazu Ohata

Hisao Tobusawa

CORPORATE AUDITORS

Standing Auditor

Nobu Yoshino

Auditors

Kenichiro Takahashi

Tatsuo Abiru

Shigehiko Yamamoto

Notes:

Mr. Tatsuo Abiru and Mr. Shigehiko Yamamoto are outside Corporate Auditors.

Corporate Data

Osaki Electric Co., Ltd.

Head Office

10-2, Higashi-Gotanda 2-chome

Shinagawa-ku Tokyo 141-8646

JAPAN

Phone : 81-3-3443-7171

Date of Founding

January 26th, 1937

Paid-in Capital

¥ 4,686 million (US\$ 57 million)

Stock Exchange Listings

Tokyo Stock Exchange

Independent Public Accountants

Hara Audit Corporation

Tokyo, JAPAN

Transfer Agent

Mitsubishi UFJ Trust and Banking Corporation

Transfer Agency Department

10-11, Higashi-Suna 7-chome

Koto-ku, Tokyo 137-8081

JAPAN

Phone : 81-3-5683-5111

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