

TSUZUKI DENKI

ANNUAL REPORT 2008

Year ended March 31, 2008

TO OUR SHAREHOLDERS

(Greetings from Shuichi Torigata, President and Representative Director)

It is my pleasure to have this opportunity to express our gratitude to all of our shareholders for your understanding and support.

Tsuzuki Denki Co., Ltd. is pleased to present the 68th term (from April 1, 2007 to March 31, 2008) business report to you.

During the term under review, the Japanese economy continued to experience moderate growth as a result of strong imports and increased capital investment on the back of improved corporate earnings. Factors such as the appreciation of the yen against the dollar because of the slowdown of the US economy in the wake of the sub-prime crisis and soaring raw material costs, however, have led to increased uncertainty regarding the economic outlook, meaning that corporate management is expected to be harder to handle in the future.

In the information technology (IT) sector in which the Group operates, technological innovation is gathering pace even faster, including the increased use of mobile technology and next generation networks (NGN), as we draw ever closer to the advent of a ubiquitous information society.

Amidst the current environment, the Group has continued to focus on core lines of business and specializations, cut costs through improved project management and reduce expenses in an effort to remain a business partner that customers can trust.

As a result, in the term under review, we posted sales of ¥108,888.28 million, down 4.8% from the previous year, ordinary income of ¥3,512.73 million, up 32.1%, and net income of ¥1,306.56 million, up 3.1%.

To repay all of our shareholders for their support, we increased year-end dividends as profits for the term under review to ¥5 per share, an increase of ¥2 over our initially projected year-end dividends (representing an ¥8 annual dividend, including interim dividend).

As a Group, we will continue to work on improving performance with the aim of expanding our business base and further enhancing our earning capacity in order to achieve sustained growth.

Toward that end we will greatly appreciate your ongoing support and encouragement.

(1) Business Review and Results

During the term under review, the Japanese economy continued to experience moderate growth as a result of strong imports and increased capital investment on the back of improved corporate earnings. Factors such as soaring oil prices and raw material costs and increased financial instability sparked by the sub-prime crisis, however, have led to increased uncertainty regarding the economic outlook.

In the IT sector in which the Group operates, technological innovation is gathering pace even faster in the field of ICT*¹, including faster and higher capacity telecommunications and the increased use of next generation networks (NGN*²), resulting in fiercer competition between companies in this sector.

Given the current environment, the Group has continued to harness its combined strengths to generate new business in an effort to actively expand its operations as a business

partner that its customers can trust.

As a result, the Group recorded sales of ¥108,888.28 million, a decrease of 4.8% from the previous year, ordinary income of ¥3,512.73 million, an increase of 32.1%, and net income of ¥1,306.56 million, an increase of 3.1%.

Information Network Systems

As part of our network solution services, we are seeing a trend towards greater demand for IP telephony amongst large companies and also a steady increase in business talks with call centers. With NGN expected to become more commonplace and demand for mobile solutions set to skyrocket in the future, the Group has continued to be in the forefront actively working towards catering to such demand.

In terms of system integration services, the environment facing the Company has continued to change at a dizzying pace, including the reorganization of the industry as a result of technical partnerships and M&A and an increasing shift in production bases and sales in favor of overseas markets.

We have therefore been focusing on areas such as production management systems for the electric, precision equipment and oil industries amongst others, business talks regarding integration with regard to distribution and accounting systems and the expansion of stock operations in software maintenance, etc.

With an increase in talks regarding systems development as part of reforms to the insurance system for local authorities, initiatives aimed at enhancing brand capabilities in the distribution industry and IT investment directly aligned with customers' needs, we have been actively expanding business activities such as the provision of low cost, high performance solutions that fully harness the Group's experience and industry expertise.

The medical sector, meanwhile, has seen efforts to reform and enhance medical systems with the aim of increasing the efficiency of and streamlining management as well as the growth in demand for ordering and electronic medical record systems. In response, we have continued to increase sales of mission-critical systems, display units and other equipment, primarily on a package basis.

In addition to expanding business through industry-specific solutions such as these, we have also continued to reinforce our project management capabilities and work towards cutting costs in the field of systems development.

As a result, sales in the information network systems segment were ¥77,119.93 million, down 1.4% from the previous year, while operating income increased 56.5% to ¥2,415.50 million.

Electronic Devices

In the semiconductor sector, sales of ASIC*³, microcomputers and memory for factory automation (FA) systems remained strong thanks to healthy capital investment in liquid crystal and related technology and communications infrastructure, especially in Asia. Sales of microcomputer ASSP*⁴ (graphics) for vehicles also remained strong and are expected to continue to grow in the future. A slump in sales of mobile phone handsets stocked by the Company, however, resulted in a significant decline in

sales of memory, ASSP for power supply and system LSI, with sales of memory for communication equipment cards, telecommunications-related microcomputers and ASIC also down.

In the electronics sector, demand for 3.5-inch HDDs manufactured overseas for audio visual equipment fell, with sales of domestic 3.5-inch HDDs also down due to delays with the development of new products. Sales of 2.5-inch HDDs for machine tool and navigation devices meanwhile remained brisk, with substantial growth in high capacity models on the consumer market in particular ensuring strong figures overall.

Sales in the supply sector remained strong as a result of our continued efforts to increase online sales (via the Tsuzuki Web Shop) and promote solutions aimed at cutting customers' purchasing costs and enabling green procurement.

As a result, sales in this segment were ¥29,428.91 million, down 15.6% from the previous year, and operating income declined 25.7% to ¥564.55 million.

Others

In the environment-related sector, we managed to exceed our sales targets in spite of harsh conditions, including increasingly fierce competition in the air conditioning industry and a tendency towards smaller scale renovation work.

In the field of environment-related, measurement and control devices, high added-value measurement and control devices continued to perform strongly.

In the temporary staffing services sector, despite the continuing struggle to secure temporary staff due to improvements in the employment environment, we still managed to record strong figures as a result of efforts to secure temporary staff in outlying regions and attract new customers.

As a result, sales for others business segment were ¥2,339.43 million, up 90.6% from the previous year, and operating income rose by 45.3% to ¥92.53 million.

*1 ICT (Information & Communication Technology)
Technology relating to information and communications

*2 NGN (Next Generation Network)
Unlike traditional phone lines, this new type of integrated network is based on the IP (internet protocol) communication standard, which is used for the internet.

*3 ASIC (Application Specific Integrated Circuit)
General term referring to LSI for specific purposes or users rather than general purposes

*4 ASSP (Application Specific Standard Product)
General purpose LSI with specialized features for specific fields

(2) Capital Investment and Financing

Total Group capital investment for the term under review was ¥341.77 million (including intangible fixed assets). The major components were the development of software to improve the efficiency of our operations and the purchase of personal computers and servers to develop the Company's infrastructure.

The funds required for these investments were procured from our own resources and borrowings from financial institutions.

(3) Key Issues to be Addressed

The scope of application of IT continues to increase as it becomes an integral part of almost every aspect of society. As a result, IT systems have become more important than ever in their role as a new lifeline for companies and individuals alike.

In order to remain a reliable business partner for its customers and the general public, the Group will continue to implement the following strategies, push ahead with management reform and enhance earning capacity in an effort to continually expand its business base.

Enhance customers' satisfaction

As the Group, we will strive to constantly create new value, provide high performance and high quality products and services, offer our customers total solutions and come up with new ways to harness IT.

Respond to changes in the business environment

In addition to improving the standard of our established technology and services, we will focus on research and development of the latest technology in an effort to provide services that meet our customers' expectations.

Develop platform business

In addition to our core information platform and IP network and telephony businesses, we will provide total systems that also incorporate services such as LAN/WAN design and development, call center services and security.

Develop solutions business

We will use our unique network PMO* and information PMO framework to identify new NGN products and establish new business models so as to provide solutions that make the most of the Group's strengths.

Personnel training

We will continue to train personnel so as to equip them with the advanced business skills essential to stay ahead of the competition and respond to an ever-advancing tide of technological innovation and our customers' increasingly diverse and sophisticated needs.

We will also continue to improve and expand our training schemes in an effort to develop personnel with both human and business skills to ensure customer satisfaction.

Risk management initiatives

We will continue to improve our internal control systems, revolving primarily around our Compliance Office, establish a legal compliance framework and control risks as part of our business activities.

Visibility initiatives

We will continue to ensure the prompt, accurate and timely disclosure of management information and expand IR activities in the interest of maintaining a high level of management transparency.

*PMO (Project Management Office)
A dedicated division established for the purpose of controlling and supervising project management on an organizational basis

CONSOLIDATED BALANCE SHEETS

As of March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
ASSETS			
Current assets:			
Cash at hand and in banks.....	¥14,360	¥14,541	\$143,313
Trade receivables:			
Accounts and notes.....	27,195	31,502	271,407
Allowance for doubtful accounts	(16)	(37)	(160)
Net trade receivables	27,179	31,465	271,248
Inventories.....	6,649	7,823	66,357
Deferred tax assets	1,248	1,839	12,455
Unearned corporate tax refunds.....	—	12	—
Other current assets	684	705	6,826
Total current assets	50,121	56,387	500,210
Property, plant and equipment:			
Land	2,385	2,394	23,802
Building and structures	982	1,061	9,800
Construction in progresss	72	29	719
Others.....	176	210	1,756
Total property, plant and equipment.....	3,616	3,695	36,088
Intangible assets:			
Intangible assets.....	491	388	4,900
Investments and other assets:			
Investments in securities.....	6,269	7,723	62,565
Long-term loans.....	123	825	1,228
Long-term time deposits.....	3,900	—	38,922
Deferred tax assets	2,234	1,506	22,295
Other	2,160	4,769	21,557
Allowance for doubtful accounts.....	(376)	(678)	(3,752)
Total investments and other assets	14,312	14,146	142,834
Total assets.....	¥68,541	¥74,618	\$684,042

Notes: (1) The U.S. dollar amounts represent translation of Japanese yen at the rate of ¥100.20=\$1.00 on March 31, 2008.

(2) Certain reclassification of previously reported amounts have been made to conform with current presentation.

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
LIABILITIES AND NET ASSETS			
Liabilities:			
Current liabilities:			
Short-term bank loans.....	¥ 6,289	¥ 7,683	\$ 62,764
Current portion of long-term debt	1,230	808	12,275
Trade payables	18,345	21,471	183,084
Accrued employees' bonuses	2,032	1,969	20,279
Allowance for loss on orders.....	—	43	—
Income taxes payables	502	627	5,010
Other current liabilities.....	3,671	3,686	36,637
Total Current liabilities	32,070	36,290	320,060
Long-term liabilities:			
Long-term debt	2,470	2,100	24,651
Deferred tax liabilities.....	2	7	20
Accrued retirement benefits.....	3,723	5,339	37,156
Provision for directors' retirement benefits.....	280	—	2,794
Negative goodwill	8	169	80
Other long-term liabilities.....	5	5	50
Total long-term liabilities	6,490	7,621	64,770
Net Assets:			
Shareholders' equity:			
Common Stock: par value ¥50			
Authorized: 98,920,000 shares			
Issued: 25,387,802 shares.....	9,812	9,812	97,924
Additional paid-in capital.....	3,476	3,476	34,691
Retained earnings	10,152	8,997	101,317
Treasury stock	(931)	(50)	(9,291)
Total shareholders' equity.....	22,510	22,235	224,651
Valuation and Translation Adjustments:			
Net unrealized holding gains on other securities	482	1,480	4,810
Minority interests in consolidated subsidiaries	6,987	6,989	69,731
Total Net Assets	29,980	30,706	299,202
Total liabilities and net assets	¥68,541	¥74,618	\$684,042

CONSOLIDATED STATEMENTS OF OPERATIONS

For the year ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Net sales	¥108,888	¥114,322	\$1,086,707
Cost of sales	91,088	97,118	909,062
Gross profit.....	17,799	17,204	177,635
Selling, general and administrative expenses.....	14,714	14,827	146,846
Operating income	3,084	2,377	30,778
Other income (expenses):			
Interest and dividend income	266	130	2,665
Interest expenses	(176)	(155)	(1,756)
Write-down loss on investment securities	(28)	(28)	(279)
Other, net.....	87	389	848
Income before income taxes and minority interests.....	3,232	2,713	32,255
Income taxes	1,019	787	10,170
Deferred income taxes.....	638	357	6,367
	1,657	1,144	16,537
Income before minority interests	1,574	1,568	15,709
Minority interests	(268)	(301)	(2,675)
Net income	¥ 1,306	¥ 1,267	\$ 13,034

Yen U.S. Dollars

Per share:

Net income	¥ 52.26	¥ 50.17	\$ 0.52
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Note: The U.S. dollar amounts represent translation of Japanese yen at the rate of ¥100.20=\$1.00 on March 31, 2008.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

Period: April 1, 2007 - March 31, 2008

(Millions of yen)

	Shareholders' equity					Valuation and adjustments, etc.	Minority interests	Total net assets
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains on other securities		
Balance as of March 31, 2007	¥9,812	¥3,476	¥ 8,997	¥ (50)	¥22,236	¥1,480	¥6,989	¥30,706
Changes during the consolidated fiscal year								
Cash dividends			(151)		(151)			(151)
Net income			1,306		1,306			1,306
Purchase of treasury stock				(880)	(880)			(880)
Changes (net amount) of items other than shareholders' equity during the consolidated fiscal accounting period						(997)	(2)	(1,000)
Total changes during the consolidated fiscal year	—	—	1,155	(880)	274	(997)	(2)	(725)
Balance as of March 31, 2008	¥9,812	¥3,476	¥10,152	¥(931)	¥22,510	¥ 482	¥6,987	¥29,880

(Thousands of U.S. Dollars)

	Shareholders' equity					Valuation and adjustments, etc.	Minority interests	Total net assets
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains on other securities		
Balance as of March 31, 2007	\$97,924	\$34,691	\$ 89,790	\$ (499)	\$221,916	\$14,770	\$69,750	\$306,447
Changes during the consolidated fiscal year								
Cash dividends			(1,507)		(1,507)			(1,507)
Net income			13,034		13,034			13,034
Purchase of treasury stock				(8,782)	(8,782)			(8,782)
Changes (net amount) of items other than shareholders' equity during the consolidated fiscal accounting period						(9,950)	(20)	(9,980)
Total changes during the consolidated fiscal year	—	—	11,527	(8,782)	2,735	(9,950)	(20)	(7,236)
Balance as of March 31, 2008	\$97,924	\$34,691	\$101,317	\$(9,291)	\$224,651	\$ 4,810	\$69,731	\$298,204

Notes: The U.S. dollar amounts represent translation of Japanese yen at the rate of ¥100.20=\$1.00 on March 31, 2008.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
I . Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 3,232	¥ 2,713	\$ 32,255
Depreciation and amortization.....	229	251	2,285
Decrease (increase) in allowances.....	(1,684)	555	(16,806)
Impairment loss	30	—	299
Decrease in trade receivables	4,941	2,608	49,311
Decrease in inventories.....	1,195	695	11,926
Decrease (increase) in trade payables	(3,704)	1,564	(36,966)
Other	(114)	418	(1,138)
Sub-total	4,126	5,678	41,178
Interest and dividends received	357	133	3,563
Interest paid	(170)	(155)	(1,697)
Income taxes paid.....	(1,108)	8	(11,058)
Other	(881)	(193)	(8,792)
Net cash provided by operating activities	2,322	5,470	23,174
II . Cash flows from investing activities:			
Payments for purchases of property, plant and equipment.....	(225)	(132)	(2,246)
Proceeds from sales of property, plant and equipment	746	77	7,445
Payments for purchases of investment securities	(2,005)	(950)	(20,010)
Proceeds from sales of investment securities	1,568	369	15,649
Other proceeds	1,580	256	15,768
Other payments	(2,384)	(2,591)	(23,792)
Net cash provided by investing activities	(719)	(2,971)	(7,176)
III. Cash flows from financing activities:			
Proceeds from short-term bank loans	496	820	4,950
Disbursements for repayments of short-term bank loans.....	(1,935)	(1,730)	(19,311)
Proceeds from long-term debt.....	1,600	650	15,968
Repayments on redemption of long-term debt.....	(808)	(858)	(8,064)
Other payments.....	(1,176)	(239)	(11,737)
Net cash provided by financing activities	(1,823)	(1,357)	(18,194)
IV. Net increase (decrease) in cash and cash equivalents	(221)	1,142	(2,206)
V . Cash and cash equivalents at beginning of year	14,484	13,342	144,551
VI. Cash and cash equivalents at end of year	¥14,263	¥14,484	\$142,345

Note: The U.S. dollar amounts represent translation of Japanese yen at the rate of ¥100.20=\$1.00 on March 31, 2008.

CORPORATE DATA

As of March 31, 2008

Name:	TSUZUKI DENKI CO., LTD.
Head Office:	19-15, Shinbashi 6-chome, Minato-ku, Tokyo 105-8665
Established:	May 1, 1932
Capital:	¥9,812,930,540
Number of Employees:	1,181

BOARD OF DIRECTORS

As of June 27, 2008

Directors

Shuichi Torigata*	President
Kangi Okamoto	Senior Managing Director
Johji Kamiya	Managing Director
Hajime Ando	Managing Director
Yoshio Takeuchi	Managing Director
Makoto Matsubara	Director
Hideo Ueda	Director
Toshihisa Mizushima	Director

*Representative Director

Mitsuru Miura	Director
Kazunori Yoshii	Director
Toshiya Mukohda	Director

Auditors

Yoshinari Uchida	Standing Statutory Auditor
Takashi Takaya	Statutory Auditor
Kinjiro Shishido	Statutory Auditor

MAJOR SHAREHOLDERS

As of March 31, 2008

Name	Number of shares held	Percentage of shares in issue
1. Fujitsu Limited	2,402,235	9.46%
2. Goldman Sachs International	1,761,000	6.94%
3. The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,237,907	4.88%
4. Employees' Stockholding	971,170	3.83%
5. Sumitomo Mitsui Banking Corporation	751,215	2.96%
6. Mizuho Bank, Ltd.	525,607	2.07%
7. Hiroyoshi Shinya	462,000	1.82%
8. CBNY DFA INTL Cap Value Portfolio	376,000	1.48%
9. UNIMAT LIFE CORPORATION	360,000	1.42%
10. MARUKYU CO., LTD.	352,000	1.39%

PRINCIPAL SUBSIDIARIES

Subsidiaries (consolidated)

Tsuzuki Densan Co., Ltd.	Sales of semiconductors, electronic components, and personal computer equipment
Tsuzuki Techno Service Co., Ltd.	Maintenance of computers and office automation equipment
Tsuzuki Software Co., Ltd.	Design of software
Tsuzuki Amenity Co., Ltd.	Sales of installation of air conditioning equipment

BRANCHES AND OFFICES

As of March 31, 2008

Branches:	Hokkaido, Kanagawa, Nagoya, Kyoto, Osaka, Kobe, Takamatsu, Kyushu
Offices:	Asahikawa, Muroran, Tohoku, Mito, Tsukuba, Chiba, Omiya, Kawasaki, Kofu, Shizuoka, Hamamatsu, Toyota, Ogaki, Okayama, Hiroshima, Tokushima, Matsuyama, Kochi

 **TSUZUKI DENKI CO., LTD.**