

To Our Shareholders:

Daniel J. Bernstein
President and
Chief Executive Officer



2008—An Unpredictable and Volatile Year

The year 2008 was a challenging one. We began with a substantial increase in backlog which required hiring an additional 5,000 workers in China. Training a new workforce of this size takes time; thus we had a substantial overtime increase (at one and a half to two times the regular pay rate) to meet this surge in demand. In addition to the cost of overtime, hiring, and training additional workers, we had to contend with China's change in labor laws resulting in increased base wages and higher indirect social costs for labor.

Raw material costs also continued to rise in the first half of 2008. In particular, costs of copper and other metals were up substantially. When material costs did begin to decrease in the third quarter, we did not realize any benefits due to existing purchasing contracts and raw materials inventory at both our suppliers and in our own warehouses.

When our factories were back up to speed and operating at optimal levels, the economic downturn began to take hold in the third quarter. By the fourth

quarter, our backlog decreased by half from what it had been at mid-year. To combat this, we took a hard look at overhead with the intent to reduce our cost structure to match new revenue levels. As part of this initiative, we closed down manufacturing operations at our Bel Power facility in Westborough, Massachusetts, moving production to China, and had closed our factory in Macao. We also developed a plan to consolidate our southern China manufacturing operations to improve efficiencies and began shifting labor-intensive production to areas in China where personnel costs are lower. This plan was implemented in January 2009 and should be completed by the third quarter.

Acquisitions

We evaluated 13 companies as possible acquisitions in 2008. In acquisition-related activity, we took a stronger position with Power-One by increasing our ownership stake from 5% to 8.4% while maintaining our investment in Toko at 1.9%. With the downturn in the market, we are expecting to see more acquisition opportunities in the next 12 months.

Magnetics

Our successful line of MagJack® integrated connectors continues as the flagship product within our magnetics group. In spite of MagJack's rapid maturation, we continue to develop a multitude of variations to keep this popular product well entrenched in networking and computing markets. We'll work to remain well-positioned with equipment manufacturers to ensure they continue to specify MagJack for their board-level designs for high speed applications such as 10Gigabit Ethernet and PoE (Power over Ethernet).

Bel's Signal Transformer Group added to its already robust product line with the addition of two new products in 2008. The Super High Efficiency (SHE) transformers are Signal's greenest product as they minimize power consumption while providing clean power with distortion-free output. The new Industrial Control Transformer (ICT) product line was also launched to provide isolation and buck boost capability in severe duty environments. New variations of Signal's popular 241 and A41 Series transformers incorporate lead wires to offer new



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installation schemes and design options. In addition, Signal published a comprehensive new product catalog and has enhanced their web site to include a competitive cross reference function to assist design engineers looking for multi-source options. During 2009, we will be distributing 450,000 catalogs through leading electronics publications to help re-energize the Signal brand name.

Modules

Bel Power's comprehensive line of DC-DC Converter Modules continues as one of our most active product lines with a number of new designs released in 2008. In addition, the transition of manufacturing from our Westborough facility to factories in China should help to control costs, enabling Bel Power to offer attractive value pricing to clients without any negative impact to profit margins. The new production in China should help sustain profitability and alleviate margin erosion which is always a key consideration in electronic component manufacturing, particularly in the highly competitive power products arena.

Bel's line of Broadband Modules has matured with a number of successfully placed designs in the exploding home networking market. We expect continued growth in this market and for the coming year, our products will

remain focused towards the two technologies that will facilitate networking and distribution of HD (high definition) entertainment throughout the home:

- PowerLine implementation which utilizes existing power lines for voice/video/data transmission
- MoCA (Multimedia over Coax Alliance) compliant scheme which uses existing coaxial cabling already installed in the home

Bel's diplexer and triplexer filters are used in high speed, home networking applications that utilize excess bandwidth available on existing coax cabling. Developed in compliance with MoCA, our diplexers and triplexers help distribute high bandwidth video throughout the home by supporting the high speed, high quality, encrypted transmission required for DVD-quality video and triple play (data/voice/video) applications.

We've also expanded our line of modules designed to support data transmission over existing power lines including next generation HomePlug® AV powerline applications. Typically deployed in home-based communication/entertainment devices such as Set Top Boxes (STBs), DSL modems, home theaters, HDTVs, and IPTV equipment, Bel's modules incorporate the silicon required to

enable powerline functionality, supporting a lower cost of ownership within a reduced footprint.

Importantly, Bel's Broadband Modules are relevant to the *Smart Grid* initiative which seeks to utilize digital technologies for improved efficiencies within energy distribution and transmission systems. This modernization effort is being promoted by many governments to reduce our carbon footprint, improve energy independence, and reduce global warming. Bel's Broadband Modules play a role in the deployment of products that will make the *Smart Grid* a reality. We hope to see a notable boost in demand for our modules as this process gets underway.

Circuit Protection

Circuit Protection Products performed below expectations due to pricing pressure in the industry. A bright spot was our newly expanded distribution channel where we increased sales through our partnership with one of the world's largest electronics distributors by 10% last year, selling to over 5,000 different customers via this channel. And we launched the new surface mount UMTS series, a universal modular fuse attractive to various applications in Europe. We will also continue to expand our



offering of PTC resettable devices and have transitioned all fuse manufacturing from Hong Kong to mainland China in order to lower operating costs going forward. Finally, we're proud of the fact that our entire Circuit Protection Product line is "green," that is, RoHS6 compliant, meeting all six mandates regulating the elimination of lead and other hazardous substances in electronic components.

Interconnect

Our Interconnect Group (formerly Stewart Connector) developed and released a variety of new products in 2008, most notably our new EPP-918A Environmental Protectant line. Designed for any application involving harsh environmental conditions and/or high mating cycles, EPP-918A can be employed with virtually any Bel connector product to increase durability. Use of this proprietary protectant also makes our connector products more environmentally friendly by increasing product longevity and thereby extending the useful life of a network. Another "green" product line from Bel!

The Interconnect Group also focused on obtaining design wins and completing product line extensions for our CAT6a jack product line which

was largely developed in 2007. The CAT6a jack products will be built into structured cabling systems needed to support the emerging 10GBase-T Ethernet protocol. We also developed modular plug and cabling systems technology to support CAT6a performance levels, as these products work in conjunction with our CAT6a jacks, and we expanded our product offering of CAT7a plugs and jacks and found niche markets outside of traditional Ethernet data communications for this connector system. The Interconnect Group remains very active in many key standards committees such as TIA and IEC which define electrical and mechanical performance parameters for RJ45 connectors.

We continued with development of our fiber optic cable assemblies, including the low insertion loss and multi-mode devices from our Czech Republic-based operation, Bel Stewart Net s.r.o.

2009 Outlook

As we look toward 2009, we see even greater challenges and continued volatility which dictate that we monitor costs and expenses very closely throughout the year. We have a strong balance sheet that will allow us to complete acquisitions if we find target companies that meet our criteria.

In total, 2008 was a roller coaster year but we've held our own by minimizing expenses and continuing new product deployment and sales channel expansion. Once again, our professional network of Bel associates around the world has persevered and met every challenge. Accordingly, I'd like to acknowledge them and thank them for their dedication. We're confident that every Bel associate will perform at the highest level as we begin what will surely be another challenging year.

Sincerely,

Daniel J. Bernstein
President and Chief Executive Officer