# Kessan Report for the March 2007 Term (Consolidated)

May 18, 2007

## SATO CORPORATION

| | |
|---|---|
| Company code number: | 6287<br>(URL http://www.sato.co.jp) |
| Shares traded: | TSE |
| Executive position of legal representative: | Masanori Otsuka, President and COO, Representative Corporate Executive Officer |
| Please address all communications to: | Tatsuo Narumi, Senior Executive Officer, General Manager, Corporate Planning & Administration Division<br>Phone: (03) 5789-2500 |
| Date of regular general meeting of shareholders: | June 22, 2007 |
| Date of commencement of dividend payments: | June 25, 2007 |
| Planned FSA filing submission date: | June 25, 2007 |

## 1. Consolidated operating results (from April 1, 2006 to March 31, 2007)

### (1) Consolidated financial results

(In millions of yen, with fractional amounts discarded)
(Percent figures show projected year-on-year change for previous year)

| | Net sales | | Operating income | | Ordinary profit | | Net income | |
|---|---|---|---|---|---|---|---|---|
| | (Millions of yen) | % | (Millions of yen) | % | (Millions of yen) | % | (Millions of yen) | % |
| March 31, 2007 | 82,491 | 19.6 | 5,695 | 9.1 | 5,484 | 1.6 | 2,389 | (9.7) |
| March 31, 2006 | 68,964 | 11.7 | 5,222 | 1.5 | 5,400 | 1.7 | 2,646 | (12.1) |

| | Net income per share | Net income per share, fully diluted | Return on equity ratio | Ratio of ordinary profit to total assets | Ratio of operating income to net sales |
|---|---|---|---|---|---|
| | (Yen) | (Yen) | % | % | % |
| March 31, 2007 | 76.30 | - | 6.5 | 8.5 | 6.9 |
| March 31, 2006 | 84.32 | - | 7.5 | 9.5 | 7.6 |

(N.b.) Gains or losses on investments through equity method accounting:
March 2007 term: - March 2006 term: -

### (2) Consolidated financial position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|---|---|---|---|---|
| | (Millions of yen) | (Millions of yen) | % | (Yen) |
| March 31, 2007 | 66,923 | 37,508 | 56.0 | 1,205.33 |
| March 31, 2006 | 61,624 | 36,119 | 58.6 | 1,149.80 |

(N.b.) Total equity:
March 2007 term: 37,503 million yen　March 2006 term: 36,119 million yen

### (3) Consolidated cash flows statement

| | Net cash provided by operating activities | Net cash used in investing activities | Net cash used in financing activities | Cash and cash equivalents at end of term |
|---|---|---|---|---|
| | (Millions of yen) | (Millions of yen) | (Millions of yen) | (Millions of yen) |
| March 31, 2007 | 2,886 | (4,040) | 496 | 10,344 |
| March 31, 2006 | 4,801 | (6,575) | 2,069 | 10,751 |

## 2. Dividends

| | Annual dividend per share | | | Total dividend paid (for the year) | Dividend payout ratio | Dividends/net assets |
|---|---|---|---|---|---|---|
| (Record date) | Interim | End of term | Annual | | | |
| | (Yen) | (Yen) | (Yen) | (Millions of yen) | % | % |
| March 31, 2006 | 15.00 | 16.00 | 31.00 | 973 | 36.8 | 2.8 |
| March 31, 2007 | 15.00 | 17.00 | 32.00 | 1,000 | 41.9 | 2.7 |
| March 31 2008 (Forecast) | 16.00 | 16.00 | 32.00 | - | 31.1 | - |

## 3. Consolidated forecasts for March 2008 term (from April 1, 2007 to March 31, 2008)

(Percent figures show projected year-on-year change for previous year)

| | Net sales | | Operating income | | Ordinary profit | | Net income | | Net income per share |
|---|---|---|---|---|---|---|---|---|---|
| | (Millions of yen) | | (Millions of yen) | | (Millions of yen) | | (Millions of yen) | | (Millions of yen) |
| Interim term | 43,000 | 6.1 | 2,500 | 14.8 | 2,400 | 9.5 | 1,100 | 107.3 | 35.35 |
| Annual | 88,000 | 6.7 | 6,300 | 10.6 | 6,100 | 11.2 | 3,200 | 33.9 | 102.85 |

## 4. Others

(1) Changes in major subsidiary status during period under review (affecting specific subsidiaries due to changes in scope of consolidation): Yes

New: 2 (SATO INTERNATIONAL AMERICA, INC. and SATO SYSTEM SUPPORT CO., LTD.)

Elimination: 1 (SATO DEUTSCHLAND GmbH)

*(Note) Please refer to page 10～12 (“Group Organization”) for further details.*

(2) Changes in principles/methods of accounting treatment, presentation method or other items related to preparation of consolidated financial statements (basis of presentation and significant accounting policies)

1) Changes related to revision of accounting standards: Yes

2) Changes other than those included in 1) above: Yes

(3) Number of outstanding shares

1) Number of outstanding shares at end of term (including treasury stock):

| | |
|---|---|
| March 31, 2007: | 32,001,169 shares |
| March 31, 2006: | 32,001,169 shares |

2) Number of treasury stock at end of term:

| | |
|---|---|
| March 31, 2007: | 886,443 shares |
| March 31, 2006: | 587,353 shares |

**(N.b.) Non-consolidated operating results**

## 1. Non-consolidated operating results (April 1, 2006 to March 31, 2007)

### (1) Non-consolidated financial results

(In millions of yen, with fractional amounts discarded)
(Percent figures show projected year-on-year change for previous year)

| | Net sales | | Operating income | | Ordinary profit | | Net income | |
|---|---|---|---|---|---|---|---|---|
| | (Millions of yen) | % | (Millions of yen) | % | (Millions of yen) | % | (Millions of yen) | % |
| March 31, 2007 | 56,798 | 1.5 | 4,811 | (5.8) | 5,051 | (8.4) | 2,912 | (13.1) |
| March 31, 2006 | 55,984 | 5.8 | 5,104 | (4.4) | 5,517 | (3.5) | 3,351 | (8.4) |

| | Net income per share | Net income per share, fully diluted |
|---|---|---|
| | (Yen) | (Yen) |
| March 31, 2007 | 93.02 | - |
| March 31, 2006 | 106.79 | - |

### (2) Non-consolidated financial position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|---|---|---|---|---|
| | (Millions of yen) | (Millions of yen) | % | (Yen) |
| March 31, 2007 | 65,411 | 42,617 | 65.2 | 1,369.70 |
| March 31, 2006 | 61,412 | 41,302 | 67.3 | 1,314.78 |

(N.b.) Total equity:

March 2007 term: 42,617 million yen        March 2006 term: 41,302 million yen

## 2. Non-consolidated forecasts for March 2008 term (from April 1, 2007 to March 31, 2008)

(Percent figures show projected year-on-year change for previous year)

| | Net sales | | Operating income | | Ordinary profit | | Net income | | Net income per share |
|---|---|---|---|---|---|---|---|---|---|
| | (Millions of yen) | | (Millions of yen) | | (Millions of yen) | | (Millions of yen) | | (Millions of yen) |
| Interim term | 29,500 | 4.7 | 2,200 | (7.4) | 2,300 | (8.9) | 1,250 | (8.8) | 40.17 |
| Annual | 59,300 | 4.4 | 4,650 | (3.4) | 4,800 | (5.0) | 2,750 | (5.6) | 88.38 |

**** Disclaimer regarding appropriate use of forecasts and related points of note***

*The forecasts stated above are based on our current expectations and assumptions prepared using information available at present and subject to various uncertainties. Actual results may differ due to a variety of causes. For the information pertaining to the forecast, please refer to the page 5～7.*

## 1. Results of Operations

### (1) Analysis of Financial Performance

a. Operating Performance

During the term under review, sales increased sharply by 19.6% to ¥82,491 million, reflecting firm demand in the domestic market and contributions from overseas operations, particularly the bar code business acquired from Checkpoint Systems Inc. (hereinafter, “CKP”) in January 2006 and the automatic identification business acquired from Walker Datavision Ltd. (hereinafter “WDV”) in June 2006.

Domestically, sales to the medical market remained strong, as did sales of markdown control systems to the large scale retail industry. Solid sales were also posted in the sectors including manufacturing and food processing. Sales in Japan thus increased by 6.1% to ¥56,523 million. Overseas, the five new sales subsidiaries established in the wake of the CKP and WDV acquisitions made a significant contribution to sales. Among existing sales subsidiaries, strong gains were recorded in the Asia Pacific region, where our sales to Japanese-owned companies, retailers and banks increased significantly. These results enabled the Company to report a substantial 65.5% increase in international sales to ¥25,967 million, which raised the percentage of overseas sales to total sales to 31.5%, a gain of 8.7 percentage points compared to the previous year.

The profit picture was affected by a number of factors which increased costs, largely in the first half. In Europe, costs related to setting up label manufacturing rose as a result of the integration of the bar code business from CKP; in other countries, the Company had to absorb higher expenses for improving, moving, and expanding sales offices. The Company also incurred additional expenses for the implementation of ERP systems in the United States, Europe and Asia, and other expenses related to the commencement of full-fledged hand labeler production at its Vietnam plant. Also in the first half, the Company failed to achieve its targeted gross profit margin because of the impact of negotiations with large accounts in Japan, which changed the composition of its sales breakdown. In the second half, the Company endeavored to improve its gross margin by taking steps to increase margins both for mechatronic printers, supplies, etc. and for consumables. Also, the temporary increase in CKP-related expenses appeared well on its way toward subsiding to more normal levels in the second half. European operations, which had presented the Company with a number of problems, also turned the corner in the second half. The reconstruction team, whose key members came from SATO INTERNATIONAL PTE. LTD. (the company responsible for control and oversight of Sato’s overseas operations) and from the ranks of senior management in several major European subsidiaries, began tackling the issues facing Europe in earnest. Through a number of autonomously derived and thoroughly executed measures, the team succeeded in revamping the sales organization, in reducing costs, and in restructuring operations—enabling Europeans operations to begin operating in the black in the second half.

International business benefited from a continued strong performance in the U.S. operations and the clear trend toward recovery in the Asia and Pacific region, with major improvements in earnings in the second half, and higher operating income and ordinary profit for the full year.

However, because of an increase in extraordinary losses—from demolition costs associated with the rebuilding of the Company's former headquarters building in Japan, from expenses incurred by the Overseas Sales Division for integration of the business acquired from CKP, business reorganization, and plant startup—the Company reported a decline in net income for the year.

As a result of the foregoing, sales increased by 19.6 percent to ¥82,491 million; operating income increased by 9.1 percent to ¥5,695 million; ordinary profit increased by 1.6% to ¥5,484 million; and net income decreased by 9.7 percent to ¥2,389 million.

Sales were thus at a record high level for the eighth consecutive year, while operating income and ordinary profit were also at historical highs.

By business segment, the Company reported the following:

(a) Mechatronic products

The segment accounted for sales of ¥35,197 million (up 16.0%) and operating income of ¥2,361 million (down 6.9%)*.

* *Reflects the impact of higher SG&A expenses due to the establishment of new service subsidiaries.*

(b) Supply products

The segment accounted for sales of ¥47,294 million (up 22.4%) and operating income of ¥3,333 million (up 24.2%).

b. Forecast for the year ending March 2008

Domestically, the Company foresees a further strengthening of demand in the food processing, medical, and manufacturing segments. It also believes that more vigorous market expansion is in store in the distribution and transportation sectors. In each segment, the Company will adopt the following key measures in an effort to increase sales and profits.

- Food processing: In response to demand for traceability systems, focusing on expanding sales of proprietary packaged software and on ASP-related services
- Medical: Positioning itself for successful negotiations on pharmaceutical labeling (introducing new products); taking steps to enhance confidence and safety (through adapting RFID, etc.)
- Manufacturing: Strengthening the traceability systems used in components management
- Distribution: Strengthening its ability to respond effectively to needs in various industries (for large-scale retailers, markdowns and back office merchandise management; for specialty retailers, ordering, shipping, and inventory management)

- Transportation: Strengthening sales of mobile printers (through adding environmentally responsive features)

The Company will also endeavor to develop new markets, respond more effectively to demand, and maintain growth potential over the medium term by strengthening its ability to develop products that meet the needs of the market. To expand and improve its capacity to supply a wide variety of labels, it will build a nationwide manufacturing network with other companies in the industry and, through collaborations with major electronics firms and materials handling manufacturers, it will also aim to utilize expertise and forge stronger cooperative relationships with companies outside the industry.

Overseas, the aim will be to permit subsidiaries to more vigorously pursue sales strategies which are responsive to local needs and to focus on expanding business. Accordingly, in April 2007, the Company established a regional administration company in each of its principal overseas markets (in the United States, in Europe, and in Asia and Oceania). This change will enable the Company to move tasks which had previously been managed by SATO INTERNATIONAL PTE. LTD. (Singapore) to the regional level. By allowing regional administration companies to tailor sales strategies, marketing decisions, and technical and management support activities more precisely to the needs of the respective regions, Sato will endeavor to strengthen the sales, manufacturing and maintenance capabilities of its subsidiaries. The principal policies for Sato's overseas markets are as follows. Each is aimed at increasing profitability through expanding business and enhancing the Company's manufacturing and management capabilities.

1. Expediting synergies from acquisitions
    - Increasing revenues through expanded sales of labels
2. Developing and deepening involvement in new businesses
    - Drug stores, medical, fast food, transportation, flowers, etc.
3. Developing a presence in new areas and deepening its involvement in those areas
    - Central and South America, Canada, Northern Europe, Korea, India, etc.
4. Strengthening collaborations
    - Strengthening joint operations with scanner manufacturers and systems integrators
5. Strengthening its sales, manufacturing and management functions
    - Establishment of regional administration companies
    - Introduction of new products
    - Reducing the costs of components and materials through global procurement
    - Enhancing productivity through renewal of printing machines
    - Maintaining stability in distribution and accounting systems
    - Promoting the sharing of best sales practices among the regions

Based on the foregoing, the Company forecasts the following results for the year to March 2008: sales, ¥88,000 million (+6.7%); operating income, ¥6,300 million (+10.6%); ordinary profit, ¥6,100 million (+11.2%); and net income, ¥3,200 million (+33.9%).

## (2) Cash flows in the year to March 2007

Consolidated cash and cash equivalents (referred to below as “cash”) decreased by ¥406 million compared to the previous year and totaled ¥10,344 million.

The major cash flow-related factors for the March 2007 term are outlined below.

### Net cash provided by operating activities

Net cash provided by operating activities amounted to ¥2,886 million.

This primarily reflected the recognition of ¥4,646 million in income before adjustments for income taxes and of ¥2,287 million in depreciation expenses. In addition, accounts payable increased by ¥1,480 million. These gains were partially offset by a ¥1,665 million increase in notes and accounts receivable, a ¥825 million increase in inventories, and a ¥393 million decrease in notes and accounts payable, as well as a ¥2,566 million increase in income taxes paid.

### Net cash used in investing activities

Net cash used in investing activities totaled ¥4,040 million.

This mainly reflected the result of the acquisition of ¥3,713 million in tangible fixed assets and of ¥253 million in intangible fixed assets, and of payments of ¥568 million for business acquisitions.

### Net cash provided by financing activities

Net cash provided by financing activities amounted to ¥496 million.

This was principally due to an increase in short-term borrowings of ¥2,089 million. This increase was offset in part by expenditures of ¥972 million for cash dividends paid and of ¥610 million for the acquisition of treasury stock.

### Trend in cash flow indices

| | March 31, 2004 | March 31, 2005 | March 31, 2006 | March 31, 2007 |
|---|---|---|---|---|
| Equity ratio (%) | 64.0 | 65.8 | 58.6 | 56.0 |
| Equity ratio based on market value (%) | 171.8 | 163.9 | 143.8 | 110.7 |
| Ratio of cash flow to interest-bearing debt (%) | 13.4 | 19.0 | 76.9 | 202.5 |
| Interest-coverage ratio | 117.8 | 48.8 | 46.8 | 21.8 |

(Notes)

1. The equity ratio is equal to shareholders’ equity divided by total assets.
2. The equity ratio based on market value is equal to total stock market capitalization divided by total assets.
3. The ratio of cash flow to interest-bearing debt is equal to interest-bearing liabilities divided by operating cash flow.
4. The interest-coverage ratio is equal to operating cash flow divided by interest payments.
5. All of the above indicators are calculated on a consolidated basis.

6. Stock market capitalization is calculated by multiplying the closing share price on the final trading day of the fiscal year by the total number of outstanding shares (excluding treasury stock) as of the corresponding fiscal year-end.

Operating cash flow equals total net cash flows provided by operating activities as stated in the consolidated statements of cash flows. Interest-bearing liabilities include all liabilities on which interest is paid, as stated in the consolidated balance sheet. Interest payments are equal to interest paid as stated in the consolidated statements of cash flows.

### (3) Policy regarding the distribution of profits and dividends

The Company's fundamental policy regarding distribution of profits is to "provide value to four parties" – shareholders, society, the Company, and its employees. The Company aims to achieve a high degree of efficiency in its investment of retained earnings. This will entail the allocation of required amounts to research and development and capital equipment, as well as to overseas expansion.

In line with its financial performance, the Company declared total dividends for the year ended March 31, 2007 of ¥32 per share (including an interim dividend of ¥15). Compared to the previous term, this represents an ordinary-dividend increase of ¥1 per share.

### (4) Risk factors

a. Risks related to trends in the automatic identification system industry

At the present time, a large percentage of the Sato Group's sales derive from bar code-related products, reflecting the widespread use of bar codes throughout society. The market for bar codes benefited in its early days from the dissemination of point-of-sale (POS) system in the retail industry and from applications in production control systems, including those related to distribution and factory automation. In recent years, the market has been expanding because of demand for traceability systems for medical care providers and the food industry and for EDI (electronic data interchange) systems. Although capital investment trends, industry realignments and other factors could impact the market in any of these areas, the Company believes that usage and demand for bar codes will continue to expand.

In the automatic identification system industry, research and development is proceeding apace on RFID technologies that enable users to input large amounts of information into IC tags/labels. The Sato Group believes that the growing popularity of RFID represents an opportunity to expand its business. The Company has engaged in research and development on these technologies and has introduced a number of RFID-related products in selected markets. At the same time, while they offer the advantage of contact-free recognition of multiple items via radio wave, RFID are problematic in a number of respects, particularly as concerns over protection of privacy, high costs and the need to select applicable environments. We believe, therefore, that a certain amount of time will be required before the technologies are accepted by society in general and before the technologies have evolved to an appropriate degree. It consequently remains unclear how much these products will contribute to the Group's financial performance in the future.

The policy of the Sato Group is to meet the needs of its customers continually. That said, however, the Group's financial performance could be affected by trends in demand for products related to bar codes and RFID products.

b. Overseas business activity

- Production system

  In order to improve its price competitiveness, the Company manufactures most mechatronics products, including electronic printers and hand labelers, at its plant in Malaysia. We constructed a new plant in Vietnam in July 2005. This will reduce risks associated with the concentration of the manufacturing of mechatronics products in the Malaysian plant.

  With respect to supply products, the Company has built production and procurement capabilities in each region that are aimed at reducing regional differences in price and delivery times and at decreasing delivery costs.

- Overseas sales

  The Sato Group sells its products through a number of sales subsidiaries in North America, Europe, Asia and Oceania. Since the year ended March 2003, it has been conducting a reorganization of its overseas sales capabilities aimed at strengthening its coverage in these markets. Specifically, this entails organizing its sales strategies around the "presentation-based" model employed in the Japanese market.

- Currency fluctuations

  The Group's pursuit of manufacturing and sales on a global scale exposes it to the effects of currency fluctuations. Its response has been to transfer administration of its overseas operations from Japan to a company established for that purpose in Singapore. It is also endeavoring to minimize risk through financial strategies such as forward exchange contracts and currency swaps. Since it is never possible to totally eliminate foreign currency risks from commercial activity, however, any significant shift in currency values could have an impact on the Group's financial results.

- Regarding country risk

  As the above indicates, the Sato Group is engaged in production and sales in a wide variety of countries. Unforeseen circumstances in such countries, including economic fluctuations, revisions of laws and regulations, and the outbreak of armed conflict, natural disasters, and infectious disease epidemics could have an impact on the Group's financial results.

## 2. Group Organization

The Sato group is involved primarily in the production and sales of electronic printers, hand labelers and other related mechatronic products, and supply products including IC tags/labels, labels, tags, tickets, ribbons, MC-cards.

All twenty six subsidiaries involved in the Company's business are consolidated subsidiaries and their roles are as shown below.

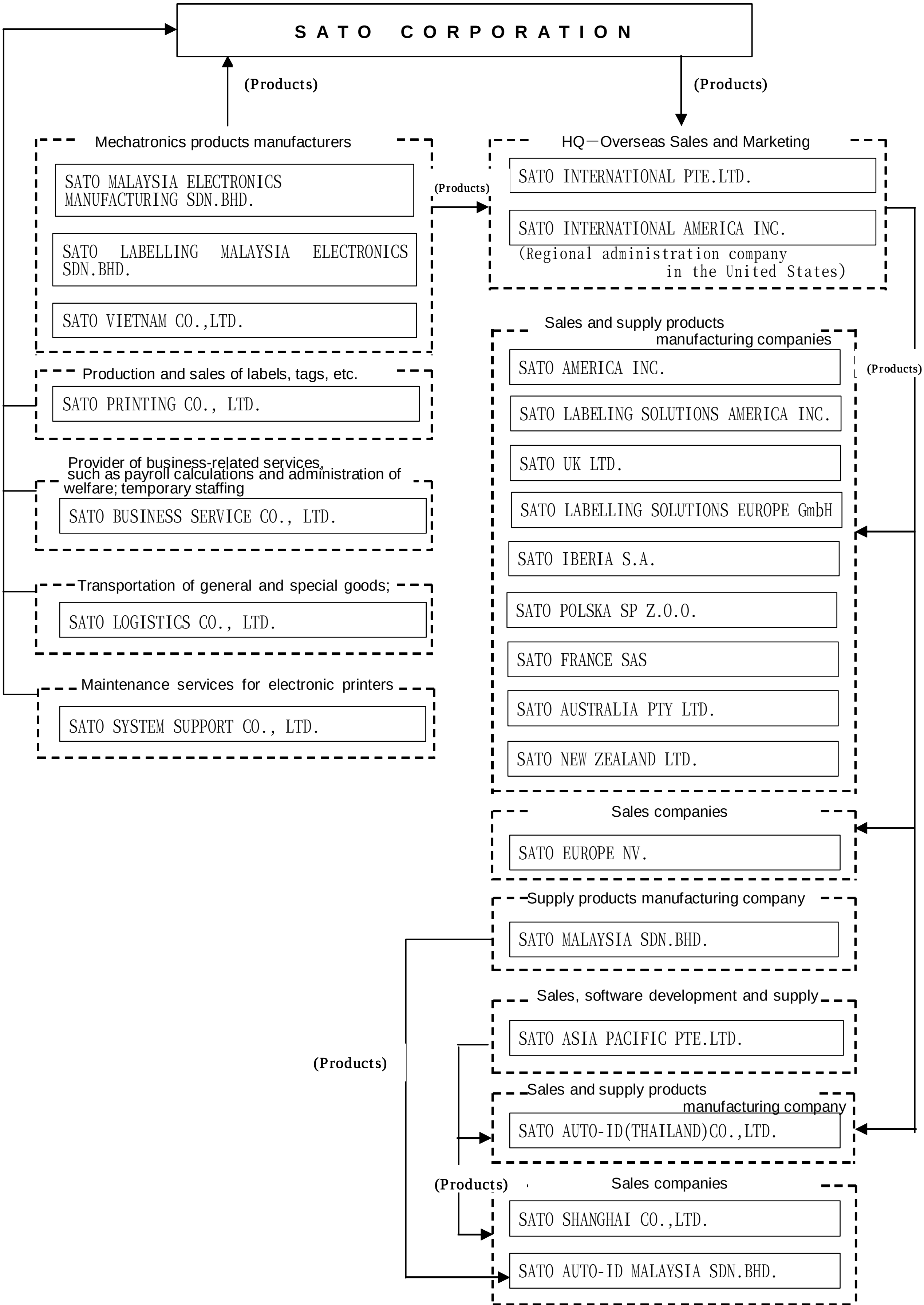
The business segmentation is the same as the "segment information by business."

| Business | Main products and services | Contents | Companies |
|---|---|---|---|
| Mechatronic product business | | | |
| Electronic printers | Electronic printers, labeling robots, automatic labelers, maintenance services | Production | SATO CORPORATION<br>SATO MALAYSIA ELECTRONICS MANUFACTURING SDN. BHD. (Malaysia)<br>(2 companies) |
| | | Sales | SATO CORPORATION<br>SATO INTERNATIONAL PTE. LTD. (Singapore)<br>*Sales to the following subsidiaries*<br>SATO AMERICA INC. (U.S.A.)<br>SATO LABELING SOLUTIONS AMERICA INC. (U.S.A.)<br>SATO UK LTD. (U.K.)<br>SATO LABELLING SOLUTIONS EUROPE GmbH (Germany)<br>SATO IBERIA S.A. (Spain)<br>SATO EUROPE NV. (Belgium)<br>SATO POLSKA SP Z.O.O. (Poland)<br>SATO FRANCE SAS (France)<br>SATO ASIA PACIFIC PTE. LTD. (Singapore)<br>SATO AUTO-ID MALAYSIA SDN. BHD. (Malaysia)<br>SATO AUTO-ID (THAILAND) CO., LTD. (Thailand)<br>SATO SHANGHAI CO., LTD. (China)<br>SATO AUSTRALIA PTY LTD. (Australia)<br>SATO NEW ZEALAND LTD. (New Zealand)<br>(16 companies) |
| Hand labelers | One line hand labelers, multiline hand labelers, software, maintenance services | Production | SATO LABELLING MALAYSIA ELECTRONICS SDN. BHD. (Malaysia)<br>SATO VIETNAM CO., LTD. (Vietnam)<br>(2 companies) |
| | | Sales | SATO CORPORATION<br>SATO INTERNATIONAL PTE. LTD. (Singapore)<br>*Sales to the following subsidiaries*<br>SATO AMERICA INC. (U.S.A.)<br>SATO LABELING SOLUTIONS AMERICA INC. (U.S.A.)<br>SATO UK LTD. (U.K.)<br>SATO LABELLING SOLUTIONS EUROPE GmbH (Germany)<br>SATO IBERIA S.A. (Spain)<br>SATO EUROPE NV. (Belgium)<br>SATO POLSKA SP Z.O.O. (Poland)<br>SATO FRANCE SAS (France)<br>SATO ASIA PACIFIC PTE. LTD. (Singapore)<br>SATO AUTO-ID MALAYSIA SDN. BHD. (Malaysia)<br>SATO AUTO-ID (THAILAND) CO., LTD. (Thailand)<br>SATO SHANGHAI CO., LTD. (China)<br>SATO AUSTRALIA PTY LTD. (Australia)<br>SATO NEW ZEALAND LTD. (New Zealand)<br>(16 companies) |

| Business | Main products and services | Contents | Companies |
|---|---|---|---|
| Supply products business | | | |
| IC tags/labels, labels, tags, tickets, ribbons, MC-cards and other supply products | Electronic printer labels/tags, hand labeler labels, IC tags/labels, labels, tickets, ribbons, MC-cards | Production | SATO CORPORATION<br>SATO AMERICA INC. (U.S.A.)<br>SATO LABELING SOLUTIONS AMERICA INC. (U.S.A.)<br>SATO UK LTD. (U.K.)<br>SATO LABELLING SOLUTIONS EUROPE GmbH (Germany)<br>SATO IBERIA S.A. (Spain)<br>SATO ASIA PACIFIC PTE. LTD. (Singapore)<br>SATO POLSKA SP Z.O.O. (Poland)<br>SATO FRANCE SAS (France)<br>SATO MALAYSIA SDN. BHD. (Malaysia)<br>SATO AUTO-ID (THAILAND) CO., LTD. (Thailand)<br>SATO AUSTRALIA PTY LTD. (Australia)<br>SATO NEW ZEALAND LTD. (New Zealand)<br>SATO PRINTING CO., LTD.<br>(14 companies) |
| | | Sales | SATO CORPORATION<br>SATO INTERNATIONAL PTE. LTD. (Singapore)<br>*Sales to the following subsidiaries*<br>SATO AMERICA INC. (U.S.A.)<br>SATO LABELING SOLUTIONS AMERICA INC. (U.S.A.)<br>SATO UK LTD. (U.K.)<br>SATO LABELLING SOLUTIONS EUROPE GmbH (Germany)<br>SATO IBERIA S.A. (Spain)<br>SATO EUROPE NV. (Belgium)<br>SATO POLSKA SP Z.O.O. (Poland)<br>SATO FRANCE SAS (France)<br>SATO ASIA PACIFIC PTE. LTD. (Singapore)<br>SATO AUTO-ID MALAYSIA SDN. BHD. (Malaysia)<br>SATO AUTO-ID (THAILAND) CO., LTD. (Thailand)<br>SATO SHANGHAI CO., LTD. (China)<br>SATO AUSTRALIA PTY LTD. (Australia)<br>SATO NEW ZEALAND LTD. (New Zealand)<br>(16 companies) |
| Production and sales of labels, tags, etc. | | | SATO PRINTING CO., LTD. |
| Provider of business-related services, such as payroll calculations and administration of welfare; temporary staffing | | | SATO BUSINESS SERVICE CO., LTD. |
| Transportation of general and special goods; inspection and assembly of electronic equipment | | | SATO LOGISTICS CO., LTD. |
| Maintenance services for electronic printers | | | SATO SYSTEM SUPPORT CO., LTD. |

(Notes)

1. In addition to the above, there are also SATO HOLDING (THAILAND) CO., LTD. (a holding company) ,S.A.R.L. DES BOIS BLANCE(a real estate management company)and SATO INTERNATIONAL AMIRICA, INC.
2. SATO MALAYSIA ELECTRONICS MANUFACTURING SDN. BHD., SATO VIETNAM CO., LTD., SATO INTERNATIONAL PTE. LTD., SATO PRINTING CO., LTD., SATO BUSINESS SERVICE CO., LTD. SATO, LOGISTICS CO., LTD. and SATO SYSTEM SUPPORT CO., LTD. are subsidiaries of the Company.
3. SATO INTERNATIONAL AMERICA INC., SATO UK LTD., SATO EUROPE NV., SATO ASIA PACIFIC PTE. LTD., SATO IBERIA S.A., and SATO LABELLING SOLUTIONS EUROPE GmbH are subsidiaries of SATO INTERNATIONAL PTE. LTD.
4. SATO SHANGHAI CO., LTD., SATO MALAYSIA SDN. BHD., SATO HOLDING (THAILAND) CO., LTD., SATO AUSTRALIA PTY LTD. and SATO NEW ZEALAND LTD. are subsidiaries of SATO ASIA PACIFIC PTE. LTD.
5. SATO LABELLING MALAYSIA ELECTRONICS SDN. BHD. is a subsidiary of SATO MALAYSIA ELECTRONICS MANUFACTURING SDN. BHD.
6. SATO FRANCE SAS and SATO POLSKA SP Z.O.O. are subsidiaries of SATO EUROPE NV.
7. SATO AUTO-ID MALAYSIA SDN. BHD. is a subsidiary of SATO MALAYSIA SDN. BHD.
8. SATO AUTO-ID (THAILAND) CO., LTD. is a subsidiary of SATO HOLDING (THAILAND) CO., LTD.
9. S.A.R.L. DES BOIS BLANCE is a subsidiary of SATO FRANCE SAS
10. SATO AMERICA INC. and SATO LABELING SOLUTIONS AMERICA INC. are subsidiaries of SATO INTERNATIONAL AMIRICA, INC.


S A T O C O R P O R A T I O N
(Products)
(Products)
Mechatronics products manufacturers
SATO MALAYSIA ELECTRONICS MANUFACTURING SDN.BHD.
SATO LABELLING MALAYSIA ELECTRONICS SDN.BHD.
SATO VIETNAM CO.,LTD.
(Products)
HQ－Overseas Sales and Marketing
SATO INTERNATIONAL PTE.LTD.
SATO INTERNATIONAL AMERICA INC.
(Regional administration company in the United States)
Production and sales of labels, tags, etc.
SATO PRINTING CO., LTD.
Provider of business-related services, such as payroll calculations and administration of welfare; temporary staffing
SATO BUSINESS SERVICE CO., LTD.
Transportation of general and special goods;
SATO LOGISTICS CO., LTD.
Maintenance services for electronic printers
SATO SYSTEM SUPPORT CO., LTD.
Sales and supply products manufacturing companies
SATO AMERICA INC.
SATO LABELING SOLUTIONS AMERICA INC.
SATO UK LTD.
SATO LABELLING SOLUTIONS EUROPE GmbH
SATO IBERIA S.A.
SATO POLSKA SP Z.O.O.
SATO FRANCE SAS
SATO AUSTRALIA PTY LTD.
SATO NEW ZEALAND LTD.
(Products)
Sales companies
SATO EUROPE NV.
Supply products manufacturing company
SATO MALAYSIA SDN.BHD.
Sales, software development and supply
SATO ASIA PACIFIC PTE.LTD.
(Products)
Sales and supply products manufacturing company
SATO AUTO-ID(THAILAND)CO.,LTD.
(Products)
Sales companies
SATO SHANGHAI CO.,LTD.
SATO AUTO-ID MALAYSIA SDN.BHD.

## 3. Management Policies

**(1) Fundamental policy**

Since its founding, guided by the watchword “never-ending creativity,” the Sato Group has been advancing a business concept that it calls “DCS (Data Collection Systems) & Labeling.” Its fundamental management policy is to contribute to society by enabling users of its products to achieve “accuracy, labor savings, and resource conservation.”

**(2) Management indices**

In terms of management indices, the Sato Group places the greatest importance on the ratio of operating income to sales and earnings per share. It considers these two indices to be benchmarks by which to measure its progress toward increasing shareholder value. By the year ending March 2011, it is aiming to achieve sales of ¥100 billion, an operating profit margin of over 8 percent, and EPS of over 130 yen. For the year ending March 2016, its targets are: sales of ¥150 billion; an operating profit margin of over 10 percent; and EPS of over 200 yen.

**(3) Medium- to long-term management strategy**

“DCS & Labeling” represents a one-of-a-kind business model by which the Sato Group builds optimum solutions for specific operational sites and proposes these solutions to its customers. The Sato Group uses auto-identification technology—bar codes, 2-D codes, and RFID (IC tags/labels)—to collect information (data) on “things” that are being moved through each stage of the business process: manufacturing, delivery, and sales. Data is collected on everything from raw materials to manufactured goods and procured merchandise. The group provides total solutions, which entail not only devising optimum combinations of electronic printers, scanners, peripherals and software but also providing ribbons, cards and other supplies and also post-purchase maintenance services.

The Company recognizes that standing still is not an option when striving to generate sustained growth in global performance. It is committed to a process of constant, building up of “small changes” to realize its motto of “never-ending creativity.” It aims to be a “leading company in the auto-identification industry” through the global implementation of its unique DCS & Labeling business model as it pursues “small changes” in all areas of corporate activity.

**(4) Issues requiring action**

a. Global expansion of DCS & Labeling

The Sato Group’s medium-term goal is to achieve sales of ¥150 billion by the year ending March 2016. This will depend crucially on its ability to achieve dramatic growth in its overseas business. Moreover, to promote worldwide acceptance of DCS & Labeling, and to make social contributions in other countries by enabling users of its products to achieve “accuracy, labor savings, and resource conservation,” the Sato Group will have to advance the following policies in overseas markets.

- Expediting synergies from acquisitions

  Following the acquisition of the barcode business of CKP in January 2006, the Company established five new overseas sales companies. In June 2006, it acquired the auto-identification business of WDV, New Zealand's top solutions provider. In October, following the closure of a development office in Sweden by one of the United State's top printer manufacturers, the Company hired ten development engineers who formerly worked at this office. These acquisitions and the newly hired employees will be key factors in strengthening the Company's ability to manufacture and supply labels, to capture new customers, and to develop an ability to propose more advanced and sophisticated solutions to its overseas customers in ways befitting the attributes of each region. By rapidly integrating this capability into the Group, the Company will seek to boost its financial performance. The Group will invest all of its energies into strengthening its corporate make-up and into building an expanded marketing presence by getting new and existing overseas sales subsidiaries to work in concert and by quickly generating synergies.

- Achieving consistent profitability in overseas operations

  The continued development of new sales channels in the Americas over the past few years has borne steady results for the Company, producing a stable regional profit structure. In Asia and Oceania, despite the temporary increase in expenses related to such factors as the full-scale start up of the Vietnam plant and support for the new business acquisitions by the overseas business headquarters company, regional sales have expanded and the business base has been fortified. With respect to improving the profitability of its European operations, the Company is seeking to build on its CKP acquisition by establishing the sales, manufacturing and operational structures that will be necessary for it to achieve its financial targets on a consistent basis. It is investing all of its energies into bringing these structures into existence in the shortest possible time. Through the above activities, the Sato Group is working to further improve overseas operations, and establish stable profitability.

- Progress with building a supply products manufacturing organization

  Sato's overseas sales subsidiaries have operated manufacturing plants for supply products in the US, UK, France, Poland, Singapore, Thailand and Malaysia. In January 2006, it acquired companies in Germany, Spain, Australia and New Zealand, expanding this sales/consumables manufacturing presence to 11 countries. It intends to continue building its supply capabilities around the world for consumables such as labels, tags, and RFID supplies. Further, to encourage international customers to continue using its products, the Company will add maintenance-service capabilities to these subsidiaries and simultaneously enhance the servicing capabilities of its major distributors through technical guidance programs.

- Enhancing manufacturing efficiency and product quality through closer collaboration between R&D and manufacturing

  The Company is working to strengthen collaboration between its R&D Division, which is responsible for design and trial manufacturing of new mechatronic products, and its plants in Malaysia and Vietnam, which are involved in mass-producing such products. The Company is accelerating the transfer of production from Malaysia to the Vietnam plant, which commenced operations in July 2005, striving to quickly increase its operating rates and improve productivity.

  Almost all of the manufacturing of hand labelers was transferred to the Vietnam plant during the term ended March 2007, with the production of electronic printers starting in the second half.

b. Continued growth through stimulation of new demand in the Japanese market

In the Japanese market, Sato will rely on accurate research of market trends and changes in the business environment to ensure a flexible response to the needs of the market in the era of ubiquitous marking. In the medical field, in addition to growing applications in medical error prevention and internal hospital management, Sato expects barcode demand to increase for medication management and equipment identification uses. In the area of product manufacturing and food processing, traceability systems are finding rapidly growing uses in production-history management, driven by demand for better control over components and raw materials, and for safety and peace of mind. In response to an increasing numbers of inquiries for RFID technologies, Sato has established in April 2006, a new RFID sales department within its sales division that will provide guidance to sales offices and develop new RFID solutions. In these and other areas, the Sato Group will not be content with moderate and stable rates of growth. To place itself on the new growth paths which enable it to achieve its goals for the year to March 2016, the Company will actively venture into collaborations with other companies, which include arrangements that enable it to utilize outside know-how and to forge other cooperative operations. It will endeavor to achieve continued growth by pursuing every possible new use of auto-identification technology in the manufacturing and distribution work sites of all industries, thus contributing to “accuracy, labor savings, and resource conservation”.

c. Upgrading and expansion of production facilities and ongoing efforts to reduce costs

Based on expanding and improving its manufacturing facilities for labels, the Company is moving forward with cost reduction measures on various fronts. These efforts include increasing productivity and product quality and cutting basic paper costs.

In August 2006, the Company’s new Nishinihon Logistics distribution center in Yamatokoriyama, Nara Prefecture, began operations. The Company expects the new facility to make a significant contribution to improving distribution efficiency in western Japan. In addition, in the year ending March 2008, the Company plans to open a new Asia Parts Center within its Malaysian plant as part of an effort to improve distribution efficiency on a global level.

d. Measures to improve internal controls

With regard to internal controls required under the Corporation Law and the Financial Instruments and Exchange Law, the Company has launched efforts under a program that it has named the “company-wide movement to enhance the transparency and quality of operations.” By taking advantage of Sato’s unique corporate culture, based on “three line reporting” system, the Company will aim to create a highly effective internal control mechanism.

# Consolidated balance sheet

| As of March 31; Millions of yen | 2006 | % | 2007 | % | Year-on-year change |
|---|---|---|---|---|---|
| **Current assets** | | | | | |
| Cash | 10,700 | | 10,344 | | (355) |
| Notes and accounts receivable | 18,169 | | 20,639 | | 2,469 |
| Marketable securities | 50 | | - | | (50) |
| Inventories | 10,144 | | 11,476 | | 1,332 |
| Deferred credit | 613 | | 680 | | 67 |
| Deferred taxes | 393 | | 398 | | 4 |
| Others | 886 | | 1,044 | | 158 |
| Allowance for doubtful accounts | (88) | | (180) | | (91) |
| Total current assets | 40,870 | 66.3 | 44,404 | 66.4 | 3,534 |
| **Fixed assets** | | | | | |
| **Tangible fixed assets** | | | | | |
| Buildings and structures | 9,586 | | 10,475 | | |
| Accumulated depreciation | 4,328 | | 4,599 | | |
| | 5,258 | | 5,876 | | 617 |
| Machinery, equipment and delivery equipment | 8,296 | | 9,533 | | |
| Accumulated depreciation | 5,634 | | 6,063 | | |
| | 2,662 | | 3,469 | | 807 |
| Tools, furniture and fixtures | 4,598 | | 5,216 | | |
| Accumulated depreciation | 3,295 | | 3,736 | | |
| | 1,302 | | 1,480 | | 177 |
| Land | 5,658 | | 5,651 | | (6) |
| Construction in progress | 298 | | 343 | | 44 |
| | 15,181 | 24.7 | 16,821 | 25.1 | 1,640 |
| **Intangible fixed assets** | | | | | |
| Consolidation adjustment account | 1,162 | | - | | (1,162) |
| Leaseholds | 490 | | 232 | | (257) |
| Goodwill | - | | 1,126 | | 1,126 |
| Others | 1,936 | | 1,754 | | (182) |
| | 3,589 | 5.8 | 3,112 | 4.6 | (476) |
| **Investments and other assets** | | | | | |
| Investment securities | 250 | | 219 | | (31) |
| Long-term loans | 38 | | 24 | | (13) |
| Guarantee deposits | 971 | | 1,083 | | 111 |
| Deferred taxes | 358 | | 766 | | 407 |
| Others | 426 | | 554 | | 127 |
| Allowance for doubtful accounts | (62) | | (63) | | (1) |
| | 1,983 | 3.2 | 2,584 | 3.9 | 600 |
| Total fixed assets | 20,753 | 33.7 | 22,519 | 33.6 | 1,765 |
| **Total assets** | **61,624** | **100.0** | **66,923** | **100.0** | **5,299** |

| As of March 31;<br>Millions of yen | 2006 | % | 2007 | % | Year-on-year change |
|---|---|---|---|---|---|
| **Current liabilities** | | | | | |
| Notes and accounts payable | 5,531 | | 5,776 | | 245 |
| Short-term borrowings | 3,465 | | 5,555 | | 2,089 |
| Accounts payable | 8,994 | | 10,672 | | 1,677 |
| Income taxes payable - other | 1,354 | | 1,384 | | 30 |
| Reserve for bonuses | 189 | | 237 | | 47 |
| Allowance for directors' and corporate auditors' bonuses | 54 | | 50 | | (4) |
| Notes payable - plant and equipment | 320 | | - | | (320) |
| Allowance for product warranty | - | | 24 | | 24 |
| Others | 3,533 | | 3,349 | | (183) |
| | 23,442 | 38.1 | 27,049 | 40.5 | 3,607 |
| **Long-term liabilities** | | | | | |
| Long-term debt | 35 | | 18 | | (16) |
| Reserve for employees' retirement benefits | 1,591 | | 1,829 | | 238 |
| Reserve for directors' and corporate auditors' retirement allowances | 245 | | - | | (245) |
| Long-term payables related to directors' and corporate auditors' retirements | - | | 245 | | 245 |
| Others | 190 | | 272 | | 81 |
| | 2,062 | 3.3 | 2,366 | 3.5 | 303 |
| Total liabilities | 25,504 | 41.4 | 29,415 | 44.0 | 3,911 |
| **Minority interest in consolidated subsidiaries** | - | - | - | - | - |
| **Shareholders' equity** | | | | | |
| Common stock | 6,331 | 10.3 | - | - | (6,331) |
| Capital surplus | 5,798 | 9.4 | - | - | (5,798) |
| Retained earnings | 24,918 | 40.5 | - | - | (24,918) |
| Other investment valuation expenses | 26 | 0.0 | - | - | (26) |
| Foreign exchange adjustment account | 499 | 0.8 | - | - | (499) |
| Treasury stock | (1,454) | (2.4) | - | - | 1,454 |
| Total shareholders' equity | 36,119 | 58.6 | - | - | (36,119) |
| **Total liabilities, minority interests and shareholders' equity** | **61,624** | **100.0** | **-** | **-** | **(61,624)** |

| As of March 31; Millions of yen | 2006 | % | 2007 | % | Year-on-year change |
|---|---|---|---|---|---|
| **Net assets** | | | | | |
| **Shareholders' equity** | | | | | |
| Common stock | - | - | 6,331 | 9.5 | 6,331 |
| Capital surplus | - | - | 5,799 | 8.7 | 5,799 |
| Retained earnings | - | - | 26,333 | 39.3 | 26,333 |
| Treasury stock | - | - | (2,059) | (3.1) | (2,059) |
| | - | - | 36,404 | 54.4 | 36,404 |
| **Valuation/translation gains (losses)** | | | | | |
| Unrealized gains or losses on other securities | - | - | 7 | 0.0 | 7 |
| Foreign currency translation adjustments | - | - | 1,091 | 1.6 | 1,091 |
| | - | - | 1,098 | 1.6 | 1,098 |
| **Minority interest in consolidated subsidiaries** | - | - | 4 | 0.0 | 4 |
| Net assets | - | - | 37,508 | 56.0 | 37,508 |
| **Total liabilities and net assets** | **-** | **-** | **66,923** | **100.0** | **66,923** |

# Consolidated statements of income

| Years ended March 31; Millions of yen | 2006 | % | 2007 | % | Year-on-year change |
|---|---|---|---|---|---|
| **Net sales** | 68,964 | 100.0 | 82,491 | 100.0 | 13,526 |
| **Cost of sales** | 38,371 | 55.6 | 46,600 | 56.6 | 8,229 |
| Gross profit on sales | 30,593 | 44.4 | 35,890 | 43.5 | 5,296 |
| **Selling, general and administrative expenses** | 25,371 | 36.8 | 30,195 | 36.6 | 4,823 |
| Operating income | 5,222 | 7.6 | 5,695 | 6.9 | 473 |
| **Non operating income** | | | | | |
| Interest income | 36 | | 59 | | |
| Dividend income | 1 | | 2 | | |
| Foreign exchange gains | 276 | | 134 | | |
| Rental income | 38 | | 5 | | |
| Commissions and fees | 10 | | 2 | | |
| Gain on sale of marketable securities | - | | 28 | | |
| Others | 198 | | 218 | | |
| | 561 | 0.8 | 451 | 0.5 | (109) |
| **Non operating expenses** | | | | | |
| Interest expenses | 102 | | 132 | | |
| Loss on disposal of inventories | 57 | | 85 | | |
| Valuation loss on swap transaction | 107 | | 104 | | |
| Others | 115 | | 339 | | |
| | 383 | 0.6 | 662 | 0.8 | 278 |
| Ordinary profit | 5,400 | 7.8 | 5,484 | 6.6 | 84 |
| **Extraordinary gains** | | | | | |
| Gain on sale of investment securities | 1 | | - | | |
| Gain on cancellation of corporate pensions | 41 | | - | | |
| Gain on sales of fixed assets | 2 | | 28 | | |
| Gain from adjustment of previous term’s earnings | - | | 38 | | |
| Others | - | | 41 | | |
| | 45 | 0.1 | 108 | 0.1 | 63 |
| **Extraordinary losses** | | | | | |
| Loss on business restructuring | 251 | | 341 | | |
| Expenses related to business acquisitions | 216 | | 328 | | |
| Loss on disposal of fixed assets | 15 | | 165 | | |
| Impairment losses | - | | 3 | | |
| Others | 62 | | 108 | | |
| | 546 | 0.8 | 946 | 1.1 | 399 |
| Income before adjustments for income taxes | 4,898 | 7.1 | 4,646 | 5.6 | (251) |
| Corporate, inhabitant and enterprise taxes | 2,275 | | 2,683 | | |
| Deferred taxes | (23) | | (430) | | |
| | 2,251 | 3.3 | 2,253 | 2.7 | (407) |
| Minority interest in income of consolidated subsidiaries | - | - | 4 | 0.0 | 4 |
| Net income | 2,646 | 3.8 | 2,389 | 2.9 | (257) |

# Consolidated statements of retained earnings

| Year ended March 31;<br>Millions of yen | 2006 |
|---|---|
| **Capital reserves** | |
| Capital reserves at beginning of year | 5,791 |
| Increase in capital reserves | |
| Gain on sale of treasury stock | 7 |
| | 7 |
| Capital reserves at end of year | 5,798 |
| **Retained earnings** | |
| Retained earnings at beginning of year | 24,143 |
| Increase in retained earnings | |
| Net income | 2,646 |
| | 2,646 |
| Decrease in retained earnings | |
| Dividends - total | 972 |
| Decrease due increase in unfunded reserves related to pension accounting at overseas subsidiaries | 899 |
| | 1,872 |
| Retained earnings at end of year | 24,918 |

# Consolidated statement of changes in net assets

| As of March 31, 2007; Millions of yen | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance as of Mar 31, 2006 | 6,331 | 5,798 | 24,918 | (1,454) | 35,593 |
| Changes during the term | | | | | |
| Dividends *1 | | | (502) | | (502) |
| Dividends *2 | | | (471) | | (471) |
| Net income (loss) | | | 2,389 | | 2,389 |
| Disposal of treasury stock | | 0 | | 5 | 5 |
| Acquisition of treasury stock | | | | (610) | (610) |
| Other changes in non-shareholders' equity items during the term (net) | | | | | |
| Total changes during the term | - | 0 | 1,415 | (604) | 811 |
| Balance as of Mar 31, 2007 | 6,331 | 5,799 | 26,333 | (2,059) | 36,404 |

| As of March 31, 2007 Millions of yen | Valuation/translation gains (losses) | | | Minority interest in consolidated subsidiaries | Net assets |
|---|---|---|---|---|---|
| | Unrealized gains losses on other securities | Foreign currency translation adjustments | Total valuation/ translation gains (losses) | | |
| Balance as of Mar 31, 2006 | 26 | 499 | 526 | - | 36,119 |
| Changes during the term | | | | | |
| Dividends *1 | | | | | (502) |
| Dividends *2 | | | | | (471) |
| Net income (loss) | | | | | 2,389 |
| Disposal of treasury stock | | | | | 5 |
| Acquisition of treasury stock | | | | | (610) |
| Other changes in non-shareholders' equity items during the term (net) | (19) | 591 | 572 | 4 | 577 |
| Total changes during the term | (19) | 591 | 572 | 4 | 1,388 |
| Balance as of Mar 31, 2007 | 7 | 1,091 | 1,098 | 4 | 37,508 |

(Notes)

1. Earnings appropriated at the Company’s Ordinary General Meeting of Shareholders held in June 2006.
2. Dividend paid out of retained earnings, based on resolution of the Board of Directors adopted in November 2006.

# Consolidated statements of cash flows

| Years ended March 31;<br>Millions of yen | 2006 | 2007 | Year-on-year change |
|---|---|---|---|
| **Net cash provided by operating activities** | | | |
| Income before adjustments for income taxes | 4,898 | 4,646 | |
| Depreciation expenses | 1,968 | 2,287 | |
| Amortization of goodwill | 61 | 197 | |
| Gain on sales of tangible fixed assets | (2) | (28) | |
| Gain on sales of investment securities | (1) | - | |
| Loss on disposal of fixed assets | 15 | 165 | |
| Loss on business restructuring | 251 | 341 | |
| Expenses related to business acquisitions | 216 | 328 | |
| Increase (decrease) in allowance for doubtful accounts | (21) | 82 | |
| Increase (decrease) in reserve for bonuses | 143 | 32 | |
| Increase (decrease) in reserve for directors' and corporate auditors' retirement allowances | (21) | - | |
| Increase (decrease) in reserve for employees' retirement benefits | 37 | 95 | |
| Increase (decrease) in reserve for directors' and corporate auditors' bonuses | - | (4) | |
| Increase (decrease) in allowance for product warranty | - | 24 | |
| Interest and dividends received | (38) | (61) | |
| Interest expenses | 102 | 132 | |
| Foreign exchange loss and gain | 550 | (81) | |
| Decrease (increase) in notes and accounts receivable | (1,445) | (1,665) | |
| Decrease (increase) in inventories | (753) | (825) | |
| Decrease (increase) in prepaid expenses | 30 | (148) | |
| Decrease (increase) in accounts receivable | (64) | (63) | |
| Increase (decrease) in notes and accounts payable | (129) | (393) | |
| Increase (decrease) in accounts payable | 694 | 1,480 | |
| Others | 763 | (350) | |
| | 7,256 | 6,192 | (1,063) |
| Interest and dividends received | 38 | 61 | |
| Interest paid | (102) | (132) | |
| Payments related to losses on business restructuring | (251) | (341) | |
| Payments related to business acquisition expenses | (216) | (328) | |
| Income taxes paid | (1,922) | (2,566) | |
| | 4,801 | 2,886 | (1,914) |

| Years ended March 31; Millions of yen | 2006 | 2007 | Year-on-year change |
|---|---|---|---|
| **Net cash used in investing activities** | | | |
| Proceeds from sales of marketable securities | 13 | - | |
| Proceeds from sales of investment securities | 1 | 62 | |
| Payments for investments in securities | (83) | (41) | |
| Purchase of tangible fixed assets | (1,338) | (3,713) | |
| Proceeds from sales of tangible fixed assets | 61 | 413 | |
| Purchase of intangible fixed assets | (644) | (253) | |
| Expenses incurred for business acquisitions | (4,268) | (568) | |
| Others | (318) | 59 | |
| | (6,575) | (4,040) | 2,535 |
| **Net cash used in financing activities** | | | |
| Increase (decrease) in short-term borrowings | 2,925 | 2,089 | |
| Increase (decrease) in long-term debt | 28 | (16) | |
| Proceeds from sales of treasury stock | 93 | 5 | |
| Purchase of treasury stock | (6) | (610) | |
| Cash dividends paid | (971) | (972) | |
| | 2,069 | 496 | (1,572) |
| Effect of exchange rate changes on cash and cash equivalents | 222 | 251 | 28 |
| Net increase in cash and cash equivalents | 516 | (406) | (923) |
| Cash and cash equivalents at beginning of year | 10,234 | 10,751 | 516 |
| Cash and cash equivalents at end of year | 10,751 | 10,344 | (406) |

## (Segment information)

### a. Business segment information

| Years ended March 31; Millions of yen | Mechatronic products business | Supply products business | Total | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **2007** | | | | | |
| Sales | | | | | |
| External customer sales | 35,197 | 47,294 | 82,491 | ( - ) | 82,491 |
| Intersegment transactions and eliminations | - | - | - | ( - ) | - |
| | 35,197 | 47,294 | 82,491 | ( - ) | 82,491 |
| Operating expenses | 32,835 | 43,960 | 76,796 | ( - ) | 76,796 |
| Operating income | 2,361 | 3,333 | 5,695 | ( - ) | 5,695 |
| Assets | 29,304 | 26,998 | 56,303 | 10,620 | 66,923 |
| Depreciation and amortization | 969 | 922 | 1,891 | 384 | 2,276 |
| Capital expenditures | 2,299 | 1,990 | 4,290 | (13) | 4,278 |
| **2006** | | | | | |
| Sales | | | | | |
| External customer sales | 30,336 | 38,628 | 68,964 | ( - ) | 68,964 |
| Intersegment transactions and eliminations | - | - | - | ( - ) | - |
| | 30,336 | 38,628 | 68,964 | ( - ) | 68,964 |
| Operating expenses | 27,798 | 35,944 | 63,742 | ( - ) | 63,742 |
| Operating income | 2,538 | 2,684 | 5,222 | ( - ) | 5,222 |
| Assets | 27,115 | 23,670 | 50,785 | 10,839 | 61,624 |
| Depreciation and amortization | 853 | 712 | 1,565 | 399 | 1,964 |
| Capital expenditures | 1,405 | 958 | 2,363 | 395 | 2,759 |

(Notes)

1. The main products of each business segment are as follows:

   Mechatronic products business: electronic bar code printers, hand labelers

   Supply products business: labels/tags for electronic printers, labels for hand labelers, IC tags/labels, tickets, ribbons, MC-cards.

2. Assets listed under eliminations and total were ¥10,839 million at the fiscal year-end. The amount at the previous fiscal year-end was ¥10,839 million. This primarily consists of surplus operating capital (cash and securities) and assets related to management divisions.

## b. Geographical segment information

| Years ended March 31; Millions of yen | Japan | North America | Europe | Asia Oceania | Total | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| **2007** | | | | | | | |
| Sales | | | | | | | |
| External customers | 56,523 | 9,422 | 10,809 | 5,735 | 82,491 | - | 82,491 |
| Intersegment sales | 2,690 | 101 | 1,401 | 12,333 | 16,526 | (16,526) | - |
| | 59,213 | 9,524 | 12,210 | 18,069 | 99,018 | (16,526) | 82,491 |
| Operating expenses | 53,841 | 8,890 | 12,383 | 17,918 | 93,033 | (16,237) | 76,796 |
| Operating income | 5,372 | 634 | (173) | 150 | 5,984 | (289) | 5,695 |
| Assets | 65,760 | 7,863 | 10,827 | 31,495 | 115,946 | (49,022) | 66,923 |
| **2006** | | | | | | | |
| Sales | | | | | | | |
| External customers | 53,272 | 5,281 | 7,172 | 3,238 | 68,964 | - | 68,964 |
| Intersegment sales | 2,712 | 21 | 1,360 | 13,034 | 17,127 | (17,127) | - |
| | 55,984 | 5,302 | 8,532 | 16,272 | 86,092 | (17,127) | 68,964 |
| Operating expenses | 50,880 | 4,985 | 8,993 | 15,664 | 80,524 | (16,781) | 63,742 |
| Operating income | 5,104 | 316 | (461) | 608 | 5,568 | (345) | 5,222 |
| Assets | 61,398 | 5,135 | 9,383 | 29,063 | 104,981 | (43,356) | 61,624 |

(Notes)

1. Regions are categorized on the basis of geographical proximity.
2. Outside Japan, the countries belonging to the various regions are as follows.
    (1) North America: U.S.A.
    (2) Europe: Germany, UK, Poland, Belgium, France and Spain
    (3) Asia and Oceania: Malaysia, Singapore, Thailand, China, Vietnam, Australia and New Zealand
3. Assets in the year ended March 2007 and 2006 included no eliminations or assets classified as corporate items.

## c. Overseas sales

| Years ended March 31; | 2006 | | 2007 | |
|---|---|---|---|---|
| Millions of yen | Overseas sales | As % of net sales | Overseas sales | As % of net sales |
| North America | 5,281 | 7.7 | 9,422 | 11.4 |
| Europe | 7,172 | 10.4 | 10,809 | 13.1 |
| Asia, others | 3,238 | 4.7 | 5,735 | 7.0 |
| | 15,692 | 22.8 | 25,967 | 31.5 |
| Consolidated sales | 68,964 | | 82,491 | |

(Notes)

1. Regions are categorized on the basis of geographical proximity.
2. Outside Japan, the countries belonging to the various regions are as follows.
   North America: U.S.A., Canada
   Europe: Germany, UK, France, Italy, etc.
   Asia, others: Malaysia, Singapore, Thailand, China, Australia, etc.
3. Overseas sales are composed of sales made in countries and regions other than Japan by the Company and its consolidated subsidiaries.

# Non-consolidated balance sheet

| As of March 31; Millions of yen | 2006 | % | 2007 | % | Year-on-year change |
|---|---|---|---|---|---|
| **Current assets** | | | | | |
| Cash | 6,714 | | 6,867 | | 153 |
| Notes receivable | 3,754 | | 4,206 | | 452 |
| Accounts receivable | 9,818 | | 10,576 | | 757 |
| Marketable securities | 50 | | - | | (50) |
| Merchandise | 349 | | 318 | | (30) |
| Finished goods | 2,914 | | 3,273 | | 359 |
| Semifinished goods | 216 | | 206 | | (10) |
| Raw materials | 360 | | 352 | | (8) |
| Work in process | 67 | | 65 | | (1) |
| Supplies | 0 | | 0 | | 0 |
| Prepaid expenses | 161 | | 367 | | 205 |
| Short-term loans to affiliated companies | 1,292 | | 670 | | (622) |
| Deferred credit | 589 | | 689 | | 99 |
| Deferred taxes | 189 | | 237 | | 48 |
| Others | 400 | | 302 | | (97) |
| Allowance for doubtful accounts | (8) | | (14) | | (6) |
| Total current assets | 26,869 | 43.8 | 28,119 | 43.0 | 1,249 |
| **Fixed assets** | | | | | |
| **Tangible fixed assets** | | | | | |
| Buildings | 7,395 | | 7,777 | | |
| Accumulated depreciation | 3,537 | | 3,581 | | |
| | 3,857 | | 4,195 | | 338 |
| Structures | 307 | | 308 | | |
| Accumulated depreciation | 242 | | 252 | | |
| | 64 | | 56 | | (8) |
| Machinery and equipment | 5,644 | | 6,319 | | |
| Accumulated depreciation | 4,092 | | 4,408 | | |
| | 1,552 | | 1,910 | | 358 |
| Vehicles and delivery equipment | 33 | | 28 | | |
| Accumulated depreciation | 30 | | 26 | | |
| | 3 | | 2 | | (1) |
| Tools, furniture and fixtures | 2,280 | | 2,354 | | |
| Accumulated depreciation | 1,828 | | 1,758 | | |
| | 451 | | 595 | | 144 |
| Land | 5,616 | | 5,607 | | (8) |
| Construction in progress | 255 | | 70 | | (184) |
| | 11,801 | 19.2 | 12,438 | 19.0 | 637 |

| As of March 31; Millions of yen | 2006 | % | 2007 | % | Year-on-year change |
|---|---|---|---|---|---|
| **Intangible fixed assets** | | | | | |
| Software | 1,372 | | 1,110 | | (261) |
| Goodwill | 34 | | 25 | | (9) |
| Software in progress | 1 | | 74 | | 73 |
| Others | 53 | | 49 | | (3) |
| | 1,461 | 2.3 | 1,261 | 1.9 | (200) |
| **Investments and other assets** | | | | | |
| Investment securities | 232 | | 194 | | (37) |
| Capital stock of affiliated companies | 18,288 | | 19,481 | | 1,193 |
| Investments in affiliated companies | 696 | | 696 | | - |
| Investments other than securities | 162 | | 1 | | (160) |
| Long-term loans to employees | 8 | | 4 | | (4) |
| Long-term loans to affiliated companies | 768 | | 1,724 | | 955 |
| Reorganization, bankruptcy and other claims | 67 | | 69 | | 1 |
| Long-term prepaid expenses | 53 | | 42 | | (11) |
| Long-term accounts receivable | - | | 130 | | 130 |
| Deferred taxes | 316 | | 394 | | 77 |
| Guarantee deposits | 649 | | 773 | | 123 |
| Others | 98 | | 144 | | 50 |
| Allowance for doubtful accounts | (63) | | (65) | | (1) |
| | 21,279 | 34.7 | 23,592 | 36.1 | 2,312 |
| Total fixed assets | 34,542 | 56.2 | 37,292 | 57.0 | 2,749 |
| **Total assets** | **61,412** | **100.0** | **65,411** | **100.0** | **3,998** |

| As of March 31; Millions of yen | 2006 | % | 2007 | % | Year-on-year change |
|---|---|---|---|---|---|
| **Current liabilities** | | | | | |
| Notes payable | 1,369 | | 1,734 | | 364 |
| Accounts payable | 2,643 | | 2,799 | | 156 |
| Short-term borrowings | 3,000 | | 5,000 | | 2,000 |
| Accounts payable - others | 8,316 | | 9,786 | | 1,469 |
| Accrued expenses | 1,016 | | 5 | | (1,011) |
| Income taxes payable | 1,225 | | 1,043 | | (181) |
| Consumption taxes payable | 254 | | - | | (254) |
| Advances from customers | 1,041 | | 19 | | (1,022) |
| Deposits received | 74 | | 1,386 | | 1,311 |
| Allowance for directors' and corporate auditors' bonuses | 54 | | 50 | | (4) |
| Allowance for product warranty | - | | 24 | | 24 |
| Notes payable - plant and equipment | 320 | | - | | (320) |
| Others | - | | 1 | | 1 |
| | 19,316 | 31.4 | 21,850 | 33.4 | 2,533 |
| **Long-term liabilities** | | | | | |
| Retirement benefits | 380 | | 503 | | 123 |
| Reserve for directors' and corporate auditors' retirement allowances | 245 | | - | | (245) |
| Long-term payables related to directors' and corporate auditors' retirements | - | | 245 | | 245 |
| Deposits received | 167 | | 194 | | 26 |
| | 793 | 1.3 | 943 | 1.4 | 149 |
| Total liabilities | 20,110 | 32.7 | 22,793 | 34.8 | 2,671 |
| **Shareholders' equity** | | | | | |
| Common stock | 6,331 | 10.3 | - | | (6,331) |
| Capital surplus | | | | | |
| Additional paid-in capital | 5,789 | | - | | (5,789) |
| Capital reserves - other | | | | | |
| Gain on sale of treasury stock | 9 | | - | | (9) |
| | 5,798 | 9.5 | - | | |
| Retained earnings | | | | | |
| Legal reserves | 474 | | - | | (474) |
| Voluntary reserves - total | | | | | |
| Deferred tax reserve | 524 | | - | | (524) |
| Special reserves | 24,400 | | - | | (24,400) |
| Unappropriated retained earnings | 5,201 | | - | | (5,201) |
| | 30,600 | 49.9 | - | | (30,600) |
| Unrealized gains or losses on other securities | 26 | 0.0 | - | | (26) |
| Treasury stock | (1,454) | (2.4) | - | | (1,454) |
| Total shareholders' equity | 41,302 | 67.3 | - | | (41,302) |
| Total liabilities and shareholders' equity | 61,412 | 100.0 | - | | (61,412) |

| As of March 31;<br>Millions of yen | 2006 | % | 2007 | % | Year-on-year change |
|---|---|---|---|---|---|
| **Net assets** | | | | | |
| **Shareholders' equity** | | | | | |
| Common stock | - | - | 6,331 | 9.7 | 6,331 |
| Capital surplus | | | | | |
| Additional paid-in capital | - | | 5,789 | | 5,789 |
| Capital reserves - other | - | | 9 | | 9 |
| | - | - | 5,799 | 8.9 | 5,799 |
| Retained earnings | | | | | |
| Legal income reserves | - | | 474 | | 474 |
| Others | | | | | |
| Reserve for tax effects | - | | 524 | | 524 |
| Special reserves | - | | 26,800 | | 26,800 |
| Reserve for overseas losses | - | | 0 | | 0 |
| Retained earnings carried forward to next term | - | | 4,739 | | 4,739 |
| | - | - | 32,539 | 49.7 | 32,539 |
| Treasury stock | - | - | (2,059) | (3.1) | (2,059) |
| | - | - | 42,610 | 65.2 | 42,610 |
| **Valuation/translation gains (losses)** | | | | | |
| Unrealized gains or losses on other securities | - | - | 7 | 0.0 | 7 |
| | - | - | 7 | 0.0 | 7 |
| Net assets | - | - | 42,617 | 65.2 | 42,617 |
| **Total liabilities and net assets** | **-** | **-** | **65,411** | **100.0** | **65,411** |

# Non-consolidated statements of income

| Years ended March 31; Millions of yen | 2006 | % | 2007 | % | Year-on-year change |
|---|---|---|---|---|---|
| **Net sales** | | | | | |
| Net sales - finished goods | 49,151 | | 49,329 | | |
| Net sales - purchased goods | 6,833 | | 7,468 | | |
| | 55,984 | 100.0 | 56,798 | 100.0 | 813 |
| **Cost of sales** | | | | | |
| Cost of sales - finished goods | | | | | |
| Finished goods inventory, beginning of year | 3,044 | | 2,914 | | |
| Production costs for the year | 21,086 | | 21,746 | | |
| Purchase of finished goods for the year | 5,539 | | 6,372 | | |
| | 29,670 | | 31,032 | | |
| Transfers to other accounts | 285 | | 481 | | |
| Finished goods inventory, end of year | 2,914 | | 3,273 | | |
| | 26,471 | | 27,277 | | 806 |
| Cost of sales - purchased goods | | | | | |
| Purchased goods inventory, beginning of year | 247 | | 349 | | |
| Purchase of goods for the year | 5,506 | | 5,980 | | |
| | 5,753 | | 6,330 | | |
| Purchased goods inventory, end of year | 349 | | 318 | | |
| | 5,404 | | 6,011 | | 607 |
| | 31,875 | 56.9 | 33,289 | 58.6 | 1,413 |
| Gross profit on sales | 24,109 | 43.1 | 23,509 | 41.4 | (600) |
| **Selling, general and administrative expenses** | | | | | |
| Sales commissions and promotion expenses | 317 | | 379 | | |
| Packing and shipping expenses | 957 | | 979 | | |
| Advertising expenses | 367 | | 339 | | |
| Directors' and corporate auditors' salaries | 352 | | 372 | | |
| Employees' salaries | 9,436 | | 8,410 | | |
| Pension benefit expenses | 762 | | 666 | | |
| Provision of allowance for directors' and corporate auditors' bonuses | 54 | | 47 | | |
| Employee benefit expenses | 1,524 | | 1,344 | | |
| Travel and transportation expenses | 689 | | 670 | | |
| Communication expenses | 414 | | 362 | | |
| Depreciation expenses | 805 | | 773 | | |
| Rental expenses | 514 | | 398 | | |
| Others | 2,808 | | 3,953 | | |
| | 19,004 | 34.0 | 18,697 | 33.0 | (307) |
| Operating income | 5,104 | 9.1 | 4,811 | 8.4 | (293) |

| Years ended March 31; Millions of yen | 2006 | % | 2007 | % | Year-on-year change |
|---|---|---|---|---|---|
| **Non operating income** | | | | | |
| Interest income | 33 | | 74 | | |
| Interest income from securities | 0 | | 0 | | |
| Dividend income | 55 | | 96 | | |
| Commissions received | - | | 72 | | |
| Exchange rate gains | 255 | | 55 | | |
| Rental income | 38 | | 16 | | |
| Others | 111 | | 52 | | |
| | 493 | 0.9 | 368 | 0.6 | (125) |
| **Non operating expenses** | | | | | |
| Interest expenses | 3 | | 23 | | |
| Loss on disposal of inventories | 29 | | 36 | | |
| Losses related to claims | 4 | | 10 | | |
| Sales discounts | 18 | | 17 | | |
| Others | 26 | | 39 | | |
| | 81 | 0.1 | 128 | 0.2 | 46 |
| Ordinary profit | 5,517 | 9.9 | 5,051 | 8.8 | (465) |
| **Extraordinary gains** | | | | | |
| Gain on sale of investment securities | 1 | | - | | |
| Gain on sale of fixed assets | - | | 9 | | |
| | 1 | 0.0 | 9 | 0.0 | 8 |
| **Extraordinary losses** | | | | | |
| Loss on disposal of fixed assets | 12 | | 162 | | |
| Impairment losses | - | | 3 | | |
| Income tax assessment for employees dispatched in prior years | - | | 31 | | |
| Others | - | | 14 | | |
| | 12 | 0.0 | 211 | 0.3 | 199 |
| Net income before taxes | 5,506 | 9.8 | 4,849 | 8.5 | (656) |
| Corporate, inhabitant and enterprises taxes | 2,140 | | 2,050 | | |
| Deferred taxes | 13 | | (113) | | |
| | 2,154 | 3.8 | 1,936 | 3.4 | (217) |
| Net income | 3,351 | 6.0 | 2,912 | 5.1 | (439) |
| Retained earnings brought forward from previous year | 2,306 | | - | | (2,306) |
| Reversal of provision for tax effects | 13 | | - | | (13) |
| Interim dividends | 470 | | - | | (470) |
| Unappropriated retained earnings | 5,201 | | - | | (5,201) |

## Cost of sales

| As of March 31; Millions of yen | | 2006 | % | 2007 | % |
|---|---|---|---|---|---|
| Cost of raw materials | | 17,223 | 81.2 | 18,086 | 83.0 |
| Subcontracted processing expenses | | 166 | 0.8 | 113 | 0.5 |
| Labor costs | ＊2 | 1,704 | 8.1 | 1,468 | 6.7 |
| Expenses | ＊3 | 2,101 | 9.9 | 2,145 | 9.8 |
| Total manufacturing overhead | | 21,196 | 100.0 | 21,813 | 100.0 |
| Semifinished goods and work-in-process inventory, beginning of period | | 238 | | 283 | |
| Transfers to other accounts | ＊4 | 65 | | 79 | |
| Semifinished goods and work-in-process inventory, end of period | | 283 | | 271 | |
| Production costs for the period | | 21,086 | | 21,746 | |

Footnotes

**2006**

1. Method of accounting for costs

The Company uses process costing for separate processes and batches; during the term, it uses estimated costs and adjusts any differences between estimated and actual costs at term end.

2. Includes ¥48 million in retirement benefit expenses

3. Includes ¥454 million in depreciation expenses

4. The breakdown of expenses allocated to other accounts is as follows.

| (Millions of yen) | |
|---|---|
| Advances | 18 |
| Accounts receivable - others | 29 |
| Selling, general and administrative expenses | 8 |
| Tools, furniture and fixtures | 5 |
| Software | 4 |
| | 65 |

**2007**

1. Method of accounting for costs

The Company uses process costing for separate processes and batches; during the term, it uses estimated costs and adjusts any differences between estimated and actual costs at term end.

2. Includes ¥43 million in retirement benefit expenses

3. Includes ¥558 million in depreciation expenses

4. The breakdown of expenses allocated to other accounts is as follows.

| (Millions of yen) | |
|---|---|
| Advances | 57 |
| Accounts receivable - others | 8 |
| Selling, general and administrative expenses | 7 |
| Tools, furniture and fixtures | 5 |
| Software | 0 |
| | 79 |

## Appropriation of retained earnings

| Millions of yen | June 22, 2006 |
|---|---|
| Unappropriated retained earnings | 5,201 |
| Appropriation of retained earnings | |
| Dividends - total | 502 |
| Voluntary reserves - total | |
| Special reserves | 2,400 |
| Reserve for overseas losses | 0 |
| | 2,903 |
| Retained earnings carried forward to next period | 2,297 |

(Note) The above date is the date on which the appropriations were approved by the General Meeting of Shareholders.

# Non-consolidated statement of changes in net assets

| As of March 31, 2007; Millions of yen | Shareholders' equity | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Capital surplus | | | Retained earnings | | | | | |
| | | | | | | Others | | | | |
| | Common stock | Additional paid-in capital | Capital reserves - other | Total capital surplus | Legal income reserves | Voluntary reserves - total | Retained earnings carried forward to next term | Total retained earnings | Treasury stock | Total shareholders' equity |
| Balance as of Mar 31, 2006 | 6,331 | 5,789 | 9 | 5,798 | 474 | 24,924 | 5,201 | 30,600 | (1,454) | 41,275 |
| Changes during the term | | | | | | | | | | |
| Addition to voluntary reserve *1 | | | | | | 2,400 | (2,400) | - | | - |
| Reversal from voluntary reserve *1 | | | | | | 0 | (0) | - | | - |
| Dividends *1 | | | | | | | (502) | (502) | | (502) |
| Dividends *2 | | | | | | | (471) | (471) | | (471) |
| Net income (loss) | | | | | | | 2,912 | 2,912 | | 2,912 |
| Disposal of treasury stock | | | 0 | 0 | | | | | 5 | 5 |
| Acquisition of treasury stock | | | | | | | | | (610) | (610) |
| Other changes in non-shareholders' equity items during the term (net) | | | | | | | | | | |
| Total changes during the term | - | - | 0 | 0 | - | 2,400 | (461) | 1,939 | (604) | 1,334 |
| Balance as of Mar 31, 2007 | 6,331 | 5,789 | 9 | 5,799 | 474 | 27,325 | 4,739 | 32,539 | (2,059) | 42,610 |

| As of March 31, 2007; Millions of yen | Valuation/translation gains (losses) | | |
|---|---|---|---|
| | Unrealized gains losses on other securities | Total valuation/translation gains (losses) | Net assets |
| Balance as of Mar 31, 2006 | 26 | 26 | 41,302 |
| Changes during the term | | | |
| Addition to voluntary reserve *1 | | | - |
| Reversal from voluntary reserve *1 | | | - |
| Dividends *1 | | | (502) |
| Dividends *2 | | | (471) |
| Net income (loss) | | | 2,912 |
| Disposal of treasury stock | | | 5 |
| Acquisition of treasury stock | | | (610) |
| Other changes in non-shareholders' equity items during the term (net) | (19) | (19) | (19) |
| Total changes during the term | (19) | (19) | 1,315 |
| Balance as of Mar 31, 2007 | 7 | 7 | 42,617 |

(Notes)

1. Earnings appropriated at the Company’s Ordinary General Meeting of Shareholders held in June 2006.
2. Dividend paid out of retained earnings, based on resolution of the Board of Directors adopted in November 2006.