

# Interim Kessan Report for the March 2008 Term (Consolidated)

November 16, 2007

## SATO CORPORATION

Company code number: 6287  
(URL <http://www.sato.co.jp>)

Shares traded: TSE1

Executive position of legal representative: Koichi Nishida, President and CEO,  
Representative Corporate Executive Officer

Please address all communications to: Tatsuo Narumi, Vice President, General  
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Division  
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Planned half-year financial report filing date: December 26, 2007  
Date of commencement of dividend payment: December 10, 2007

### 1. Consolidated operating results (April 1, 2007 to September 30, 2007)

#### (1) Consolidated financial results

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

	Net sales		Operating income		Ordinary profit	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
September 30, 2007	43,561	7.5	2,389	9.7	2,312	5.6
September 30, 2006	40,510	23.1	2,178	(10.5)	2,191	(12.0)
March 31, 2007	82,491	-	5,695	-	5,484	-

	Net income		Net income per share	Net income per share, fully diluted
	(Millions of yen)	%	(Yen)	(Yen)
September 30, 2007	950	79.0	30.53	-
September 30, 2006	530	(59.8)	16.89	-
March 31, 2007	2,389	-	76.30	-

(N.B.) Gains or losses on investments through equity method accounting:

September 2007 term: -  
March 2007 term: -

September 2006 term: -

#### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
September 30, 2007	69,008	37,966	55.0	1,219.14
September 30, 2006	63,144	36,124	57.2	1,149.87
March 31, 2007	66,923	37,508	56.0	1,205.33

(N.B.) Total equity:

September 2007 term: 37,932 million yen  
March 2007 term: 37,503 million yen

September 2006 term: 36,123 million yen

### (3) Consolidated cash flow statement

	Net cash provided by operating activities	Net cash used in investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at the end of term
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
September 30, 2007	874	(1,112)	274	10,392
September 30, 2006	802	(2,425)	(263)	8,977
March 31, 2007	2,912	(4,066)	496	10,344

### 2. Dividends

(Record date)	Annual dividend per share		
	Interim	End of term	Annual
	(Yen)	(Yen)	(Yen)
March 31, 2007	15.00	17.00	32.00
March 31, 2008	16.00	-	33.00
March 31 2008 (Forecast)	-	17.00	

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

(Percent figures show year-on-year change)

	Net sales		Operating income		Ordinary profit		Net income		Net income per share
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Yen)
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 the period under review (affecting specific subsidiaries due to changes in scope of consolidation): None

New: - Elimination: -

(Note) Please refer to pages 9 ~ 13 ("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: None

- (3) Number of issued shares

- 1) Number of issued shares at the end of term (including treasury stock):

September 30, 2007: 32,001,169 shares  
September 30, 2006: 32,001,169 shares  
March 31, 2007: 32,001,169 shares

- 2) Number of treasury stock at the end of term:

September 30, 2007: 887,070 shares  
September 30, 2006: 585,952 shares  
March 31, 2007: 886,443 shares

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

**1. Non-consolidated operating results (April 1, 2007 to September 30, 2007)**

**(1) Non-consolidated financial results**

(Percent figures show year-on-year change)

	Net sales		Operating income		Ordinary profit	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
September 30, 2007	30,141	7.0	1,898	(20.1)	1,948	(22.9)
September 30, 2006	28,166	1.3	2,375	(0.9)	2,526	(2.6)
March 31, 2007	56,798	-	4,811	-	5,051	-

	Net income		Net income per share
	(Millions of yen)	%	(Yen)
September 30, 2007	1,167	(14.9)	37.51
September 30, 2006	1,371	(11.3)	43.65
March 31, 2007	2,912	-	93.02

**(2) Non-consolidated financial position**

	Total assets	Net assets	Equity ratio	Net assets per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
September 30, 2007	66,802	43,278	64.7	1,390.03
September 30, 2006	62,333	42,166	67.6	1,342.23
March 31, 2007	65,411	42,617	65.2	1,369.70

(N.B.) Total equity:

September 2007 term: 43,249 million yen

September 2006 term: 42,166 million yen

March 2007 term: 42,617 million yen

**2. Non-consolidated forecasts for March 2008 term**

**(from April 1, 2007 to March 31, 2008)**

(Percent figures show year-on-year change)

	Net sales		Operating income		Ordinary profit		Net income		Net income per share
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Yen)
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.*

## **1. Results of Operations**

### **(1) Analysis of Financial Performance**

#### **a. Operating Performance**

During the six-month period ended September 2007, sales increased by ¥3,051 million or 7.5% year on year to ¥43,561 million, a record high for an interim period, with the SATO Group successfully continuing on from the previous fiscal year to exploit increasing demand in several market segments, notably medical care, retailing, food processing, manufacturing, and transportation. Sales in Japan rose by ¥1,519 million or 5.4% year on year to ¥29,660 million, while sales in overseas markets jumped by ¥1,532 million or 12.4% year on year to ¥13,901 million.

Although higher sales contributed to profit growth in all business segments, the Group failed to generate the gross profit on sales it achieved in its year-earlier term, largely because of a change in the composition of sales in the domestic market, where supply product sales rose sharply and mechatronic product sales registered only small gains. Profit margins were further affected by an aggressive level of R&D investment, principally into new product development for electronic printers. The Group also recorded higher SG&A expenses in the area of personnel, internal control, and depreciation. Overseas, although profits benefited from a sharp 50% year-on-year increase in shipments of printers, several subsidiaries in Europe, which took over operations from Checkpoint Systems Inc. (“CKP”), fell short of their sales targets and incurred higher expenses as they continued the work they began in the previous fiscal year to build more effective sales capabilities and operational control systems. The Group believes that the expenses required to rebuild operations in Europe for the integration of the CKP businesses are a necessary step to ensure stability of profits in the future.

As a result of the foregoing, operating income for the six-month period ended September 2007 increased by 9.7% year on year to ¥2,389 million, ordinary profit increased by 5.6% year on year to ¥2,312 million, and net income increased by 79.0% year on year to ¥950 million.

By business segment, the Company reported the following:

#### **(a) Mechatronic products**

The segment accounted for sales of ¥18,245 million (up 3.9% year on year) and operating income of ¥1,326 million (up 49.3% year on year).

#### **(b) Supply products**

The segment accounted for sales of ¥25,316 million (up 10.3% year on year) and operating income of ¥1,063 million (down 17.6% year on year).

b. Forecast for the year ending March 2008

By increasing the speed by which best negotiating practices are shared among its operations in Japan and other regions of the world, the Group is aiming to respond flexibly to demand in each of its expanding global markets and to pursue every available opportunity to expand its sales based on a full awareness of trends and environmental changes in each market.

In Japan, demand is growing in a number of market segments, including medical care, retailing, food processing, manufacturing, and transportation. By successfully concluding negotiations for markdown systems with large-scale retailers and for printers that generate sorting labels with major transportation companies, the Group is aiming to further grow its sales in the domestic market.

In the Americas, the Group's efforts to develop new sales channels in a number of markets are steadily yielding results, as evidenced by its recent acquisition of the logistics and RFID-related businesses of TrakIT Systems, Inc. These successes promise further growth in both sales and profits in this region. In Europe, while continuing to execute measures that were adopted in the first half of the year to improve operational structures, The Company will endeavor to increase the profitability of each subsidiary by exploiting the growing demand in their markets in the second half. In Asia and Oceania, business continues to expand strongly, with the Group working full tilt on new negotiations with Japanese-owned companies and making deliveries to public-sector projects. The Company believes that this demand will continue to grow in the second half. Likewise, the Company expects production of electric printers at the Company's Malaysia and Vietnam plants to continue to grow and believes this will contribute to a further expansion of profits.

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

**(2) Cash flows in the year to September 2007**

Consolidated cash and cash equivalents (referred to below as "cash") increased by ¥47 million compared to the end of the previous fiscal year and totaled ¥10,392 million at the end of the interim period.

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

**Net cash provided by operating activities**

Net cash provided by operating activities amounted to ¥874 million.

This primarily reflected the recognition of ¥2,007 million in income before adjustments for income

taxes and of ¥1,261 million in depreciation expenses. In addition, a ¥171 million increase in notes and accounts payable and other accounts payable increased by ¥177 million. These gains were partially offset by a ¥773 million increase in notes and accounts receivable, a ¥949 million increase in inventories and a ¥1,324 million increase in income taxes paid.

### **Net cash used in investing activities**

Net cash used in investing activities totaled ¥1,112 million.

This mainly reflected the result of the acquisition of ¥687 million in tangible fixed assets and of ¥387 million in intangible fixed assets.

### **Net cash provided by financing activities**

Net cash provided by financing activities amounted to ¥274 million.

This was principally due to an increase in short-term borrowings of ¥809 million. This increase was offset in part by expenditures of ¥528 million for cash dividends paid.

### **Trend in cash flow indices**

	March 31, 2005	March 31, 2006	March 31, 2007	September 30, 2007
Equity ratio (%)	65.8	58.6	56.0	55.0
Equity ratio based on market value (%)	163.9	143.8	110.7	96.7
Ratio of cash flow to interest-bearing debt (%)	19.0	76.9	200.7	377.0
Interest-coverage ratio	48.8	46.8	22.0	9.9

(Notes)

1. The equity ratio is equal to total 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 debt divided by operating cash flow.  
(To calculate annualized figures for the interim period, the Company multiplies the operating cash flow for the period by two.)
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 period by the total number of outstanding shares (excluding treasury stock) as of the corresponding period-end.
7. Operating cash flow equals total net cash flows provided by operating activities as stated in the consolidated statements of cash flows. Interest-bearing debt includes 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 – , and steadily raise the payout ratio. 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.

The Company has decided to increase its dividend for the interim period by ¥1, to ¥16 per share compared to ¥15 per share for the same period of the previous year. On an annual basis, it will thus be paying a dividend of ¥33 per share (the interim dividend of ¥16 and a year-end dividend of ¥17).

#### **(4) Risk factors**

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

At the present time, a large percentage of the 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 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 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**

The Group manufactures its mechatronic products at two plants, one in Malaysia and the other in Vietnam.

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

- Overseas sales

The 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 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 nine 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."

<b>Business</b>	<b>Main products and services</b>	<b>Contents</b>	<b>Companies</b>
<b>Mechatronic product business</b>			
Electronic printers	Electronic printers, labeling robots, automatic labelers, maintenance services	Administration	SATO CORPORATION SATO INTERNATIONAL PTE. LTD. (Singapore) <i>Responsible for the administration of the following subsidiaries:</i> SATO INTERNATIONAL AMERICA, INC. (U. S. A.) SATO INTERNATIONAL EUROPE N. V. (Belgium) SATO INTERNATIONAL ASIA PACIFIC PTE. LTD. (Singapore) (5 companies)
		Sales	SATO CORPORATION SATO INTERNATIONAL PTE. LTD. (Singapore) SATO AMERICA, INC. (U.S.A.) SATO LABELING SOLUTIONS AMERICA, INC. (U. S. A.) SATO UK LTD. (U. K.) SATO LABELLING SOLUTIONS EUROPE GmbH (Germany) SATO IBERIA S. A. (Spain) SATO POLSKA SP. ZO. O. (Poland) SATO FRANCE S. A. S. (France) SATO ASIA PACIFIC PTE. LTD. (Singapore) SATO AUTO-ID MALAYSIA SDN. BHD. (Malaysia) SATO AUTO-ID (THAILAND) CO., LTD. (Thailand) SATO SHANGHAI CO., LTD. (China) SATO AUSTRALIA PTY LTD. (Australia) SATO NEW ZEALAND LTD. (New Zealand) (15 companies)
		Production	SATO CORPORATION SATO MALAYSIA ELECTRONICS MANUFACTURING SDN. BHD. (Malaysia) (2 companies)

<b>Business</b>	<b>Main products and services</b>	<b>Contents</b>	<b>Companies</b>
Hand labelers	One line hand labelers, multiline hand labelers, software, maintenance services	Administration	SATO CORPORATION SATO INTERNATIONAL PTE. LTD. (Singapore) <i>Responsible for the administration of the following subsidiaries:</i> SATO INTERNATIONAL AMERICA, INC. (U. S. A.) SATO INTERNATIONAL EUROPE N. V. (Belgium) SATO INTERNATIONAL ASIA PACIFIC PTE. LTD. (Singapore)  (5 companies)
		Sales	SATO CORPORATION SATO INTERNATIONAL PTE. LTD. (Singapore) SATO AMERICA, INC. (U. S. A.) SATO LABELING SOLUTIONS AMERICA, INC. (U. S. A.) SATO UK LTD. (U. K.) SATO LABELLING SOLUTIONS EUROPE GmbH (Germany) SATO IBERIA S. A. (Spain) SATO POLSKA SP. ZO. O. (Poland) SATO FRANCE S. A. S. (France) SATO ASIA PACIFIC PTE. LTD. (Singapore) SATO AUTO-ID MALAYSIA SDN. BHD. (Malaysia) SATO AUTO-ID (THAILAND) CO., LTD. (Thailand) SATO SHANGHAI CO., LTD. (China) SATO AUSTRALIA PTY LTD. (Australia) SATO NEW ZEALAND LTD. (New Zealand)  (15 companies)
		Production	SATO LABELLING MALAYSIA ELECTRONICS SDN. BHD. (Malaysia) SATO VIETNAM CO., LTD. (Vietnam)  (2 companies)

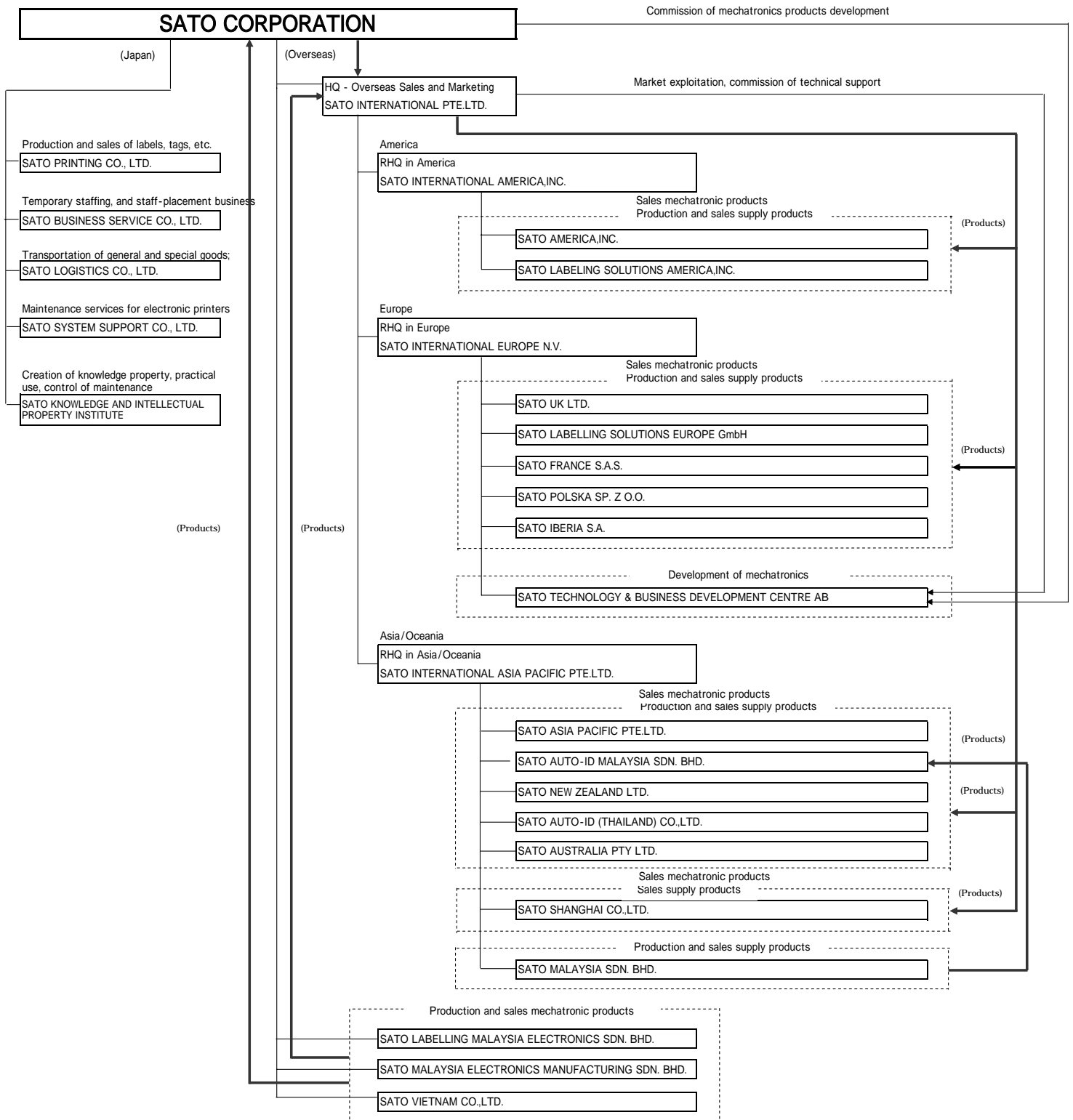
<b>Business</b>	<b>Main products and services</b>	<b>Contents</b>	<b>Companies</b>
<b>Supply products business</b>			
IC tags/labels, labels, tags, tickets, ribbons, MC-cards and other supply products	Electronic printer labels/tags, hand labeler labels, IC tags/labels, labels, tickets, ribbons, MC-cards	Administration	SATO CORPORATION SATO INTERNATIONAL PTE. LTD. (Singapore) <i>Responsible for the administration of the following subsidiaries:</i> SATO INTERNATIONAL AMERICA, INC. (U. S. A.) SATO INTERNATIONAL EUROPE N. V. (Belgium) SATO INTERNATIONAL ASIA PACIFIC PTE. LTD. (Singapore)  <p style="text-align: right;">(5 companies)</p>
		Sales	SATO CORPORATION SATO INTERNATIONAL PTE. LTD. (Singapore) SATO AMERICA, INC. (U. S. A.) SATO LABELING SOLUTIONS AMERICA, INC. (U. S. A.) SATO UK LTD. (U. K.) SATO LABELLING SOLUTIONS EUROPE GmbH (Germany) SATO IBERIA S. A. (Spain) SATO POLSKA SP. ZO. O. (Poland) SATO FRANCE S. A. S. (France) SATO ASIA PACIFIC PTE. LTD. (Singapore) SATO AUTO-ID MALAYSIA SDN. BHD. (Malaysia) SATO AUTO-ID (THAILAND) CO., LTD. (Thailand) SATO SHANGHAI CO., LTD. (China) SATO AUSTRALIA PTY LTD. (Australia) SATO NEW ZEALAND LTD. (New Zealand)  <p style="text-align: right;">(15 companies)</p>
		Production	SATO CORPORATION SATO AMERICA, INC. (U. S. A.) SATO LABELING SOLUTIONS AMERICA, INC. (U. S. A.) SATO UK LTD. (U. K.) SATO LABELLING SOLUTIONS EUROPE GmbH (Germany) SATO IBERIA S. A. (Spain) SATO ASIA PACIFIC PTE. LTD. (Singapore) SATO POLSKA SP. ZO. O. (Poland) SATO FRANCE S. A. S. (France) SATO MALAYSIA SDN. BHD. (Malaysia) SATO AUTO-ID (THAILAND) CO., LTD. (Thailand) SATO AUSTRALIA PTY LTD. (Australia) SATO NEW ZEALAND LTD. (New Zealand) SATO PRINTING CO., LTD.  <p style="text-align: right;">(14 companies)</p>
		Production and sales of labels, tags, etc.	SATO PRINTING CO., LTD.
		Staff agency, 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.
		Creating, utilizing, and maintaining intellectual property	SATO KNOWLEDGE AND INTELLECTUAL PROPERTY INSTITUTE

(Notes)

1. In addition to the above-listed companies, the Company also consolidates SATO HOLDING (THAILAND) CO., LTD. (a holding company), S. A. R. L. DES BOIS BLANCS (a real estate management company), and SATO TECHNOLOGY & BUSINESS DEVELOPMENT CENTRE AB (a support center for technology and business development).

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., SATO SYSTEM SUPPORT CO., LTD. and SATO KNOWLEDGE AND INTELLECTUAL PROPERTY INSTITUTE are subsidiaries of the Company.
3. SATO INTERNATIONAL AMERICA, INC., SATO UK LTD., SATO INTERNATIONAL EUROPE N. V., SATO ASIA PACIFIC PTE. LTD., SATO IBERIA S. A., SATO LABELLING SOLUTIONS EUROPE GmbH, SATO INTERNATIONAL ASIA PACIFIC PTE. LTD., and SATO TECHNOLOGY & BUSINESS DEVELOPMENT CENTRE AB 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 S. A. S. and SATO POLSKA SP. ZO. O. are subsidiaries of SATO INTERNATIONAL EUROPE N. V.
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 BLANCS is a subsidiary of SATO FRANCE S. A. S.
10. SATO AMERICA, INC. and SATO LABELING SOLUTIONS AMERICA, INC. are subsidiaries of SATO INTERNATIONAL AMERICA, INC.

The business relationships of the Group described above are shown in diagram form below.



### **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 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 8 % or more, and EPS of ¥130 or more. For the year ending March 2016, its targets are: sales of ¥150 billion; an operating profit margin of over 10 % or more; and EPS of ¥200 or more.

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

“DCS & Labeling” represents a one-of-a-kind business model by which the Group builds optimum solutions for specific operational sites and proposes these solutions to its customers. The Group uses auto-identification technology—bar codes, 2-D codes, and RFID—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 labels, ribbons, cards and other supplies and also post-purchase maintenance services.

The Group 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 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 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 Walker Datavision Ltd, 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 employed ten development engineers who formerly worked at this office. These acquisitions and the newly employed 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 and expanding 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 Group is working to further improve overseas operations, and establish stable profitability.

- Progress with building a supply products manufacturing and supplying organization

The Company'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.

Domestically, the Company will aim to enhance productivity and quality by adding more technologically advanced printers to its manufacturing lines. It will also take steps to promote

cost further reductions by analyzing potential savings from a variety of angles, including the cost of paper.

In addition, by expanding its network with seal and label manufacturers across the country, the Company will take steps to stabilize its sources of supply and strengthen its cost competitiveness.

- 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.

To respond to demand created by the growing foreign direct investment of Japanese firms, the Company will take steps to strengthen intra-group collaboration. Better collaboration will enable it to deal with issues such as the reduction of product-development times, the improvement of manufacturing efficiency, cost reduction, and quality enhancement.

Specifically, it will seek to foster closer collaboration among the following: its R&D Division, which is responsible for design and trial manufacturing of new mechatronic products for Japanese and overseas markets; SATO TECHNOLOGY & BUSINESS DEVELOPMENT CENTRE AG, which was established in October 2006 in Goteborg, Sweden; and the Malaysia and Vietnam plants, which are responsible for scaling up the manufacturing of new products.

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

In the Japanese market, the Company 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, the Company 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. Furthermore, to respond to inquiries from Japanese companies that are investing abroad, the Company has established a “GS” [for Global Sales] Department in Japan, which will provide support to such companies by utilizing the collaborative capabilities of its global network.

To place itself on the new growth paths which enable it to achieve its goals for the year ending 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. Enhancing logistical efficiency and optimizing inventories

In July 2007, the Company established a global parts center inside its Malaysian plant to improve the efficiency of its intra-group logistical operations.

In addition, by striving to maintain optimal levels of intra-group inventory, it will endeavor further to strengthen its financial structure.

d. Launching of operations at domestic subsidiary

The Company established SATO KNOWLEDGE AND INTELLECTUAL PROPERTY INSTITUTE to carry out operations related to the creation, utilization, and maintenance/management of intellectual property on April 2, 2007.

As intellectual property becomes increasingly vital in the successful management of business enterprises, the ability to pass on the various forms of knowledge that have been created by the enterprise or its employees also grows in importance. Among the assets that have value in this sense are know-how, business models, and corporate culture.

In addition to intellectual property, SATO KNOWLEDGE AND INTELLECTUAL PROPERTY INSTITUTE considers these kinds of knowledge to be “intellectual property” in a broad sense. The Company established this new subsidiary to enhance the enterprise value of its group companies through increasing, protecting, and utilizing these knowledge assets as management resources.

Through the medium of such knowledge assets, the Company intends to build collaborative relationships and networks with persons and organizations outside the Group.

e. 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 the Company’s unique corporate culture, based on “three line reporting” system, the Company will aim to create a highly effective internal control mechanism.

f. Utilization of human resources

The Company believes that as people increasingly add value as human beings, “enterprise value” is enhanced. It will thus continue to emphasize the training and development of competent leaders.

To further leadership development for the next generation, the Company will endeavor to revitalize both the organization and its employees through the use of training programs and its “three-line reporting” system (the Group’s originally developed knowledge-management system). In addition, as part of an effort to secure talented leaders in an aging society, it will endeavor to build a corporate culture that encourages women and older employees to make vital contributions to the Company’s success.

## 4. Consolidated Financial Statements

### Consolidated balance sheet

Millions of yen	September 30, 2006	%	September 30, 2007	%	March 31, 2007	%
<b>Current assets</b>						
Cash	8,927		10,293		10,344	
Notes and accounts receivable	19,561		21,497		20,639	
Marketable securities	50		214		-	
Inventories	10,476		12,362		11,476	
Deferred credit	731		886		680	
Deferred taxes	551		419		398	
Others	869		1,115		1,044	
Allowance for doubtful accounts	(93)		(235)		(180)	
Total current assets	41,074	65.0	46,553	67.5	44,404	66.4
<b>Fixed assets</b>						
<b>Tangible fixed assets</b>						
Buildings and structures	10,060		10,490		10,475	
Accumulated depreciation	4,346		4,779		4,599	
	5,713		5,711		5,876	
Machinery, equipment and delivery equipment	8,687		9,998		9,533	
Accumulated depreciation	5,622		6,387		6,063	
	3,065		3,610		3,469	
Tools, furniture and fixtures	4,889		5,400		5,216	
Accumulated depreciation	3,559		3,977		3,736	
	1,329		1,423		1,480	
Land	5,658		5,647		5,651	
Construction in progress	424		348		343	
Total tangible fixed assets	16,191	25.7	16,741	24.2	16,821	25.1
<b>Intangible fixed assets</b>						
Goodwill	1,564		999		1,126	
Leaseholds	216		250		232	
Others	1,832		1,773		1,754	
Total intangible fixed assets	3,613	5.7	3,022	4.4	3,112	4.6
<b>Investments and other assets</b>						
Investment securities	237		184		219	
Guarantee deposits	1,084		1,093		1,083	
Deferred taxes	411		911		766	
Others	598		551		578	
Allowance for doubtful accounts	(66)		(49)		(63)	
Total investments and other assets	2,264	3.6	2,691	3.9	2,584	3.9
Total fixed assets	22,069	35.0	22,455	32.5	22,519	33.6
<b>Total assets</b>	<b>63,144</b>	<b>100.0</b>	<b>69,008</b>	<b>100.0</b>	<b>66,923</b>	<b>100.0</b>

Millions of yen	September 30, 2006	%	September 30, 2007	%	March 31, 2007	%
<b>Current liabilities</b>						
Notes and accounts payable	6,660		5,991		5,776	
Short-term borrowings	3,474		6,357		5,555	
Accounts payable - other	10,674		11,056		10,672	
Income taxes payable	1,289		1,172		1,384	
Reserve for bonuses	259		296		237	
Allowance for product warranty	24		24		24	
Others	2,197		3,685		3,399	
Total current liabilities	24,581	38.9	28,584	41.4	27,049	40.5
<b>Long-term liabilities</b>						
Long-term debt	262		14		18	
Reserve for employees' retirement benefits	1,720		1,867		1,829	
Others	457		576		517	
Total long-term liabilities	2,439	3.9	2,457	3.6	2,366	3.5
Total liabilities	27,020	42.8	31,042	45.0	29,415	44.0
<b>Net assets</b>						
<b>Shareholders' equity</b>						
Common stock	6,331	10.0	6,331	9.2	6,331	9.5
Capital surplus	5,799	9.2	5,799	8.4	5,799	8.7
Retained earnings	24,946	39.5	26,865	38.9	26,333	39.3
Treasury stock	(1,451)	(2.3)	(2,060)	(3.0)	(2,059)	(3.1)
Total shareholders' equity	35,624	56.4	36,935	53.5	36,404	54.4
<b>Valuation/translation gains (losses)</b>						
Unrealized gains or losses on other securities	18	0.0	2	0.0	7	0.0
Foreign currency translation adjustments	479	0.8	994	1.4	1,091	1.6
Total valuation/translation gains (losses)	498	0.8	997	1.4	1,098	1.6
<b>New share subscription rights</b>	-	-	28	0.1	-	-
<b>Minority interest in consolidated subsidiaries</b>	0	0.0	5	0.0	4	0.0
Total net assets	36,124	57.2	37,966	55.0	37,508	56.0
<b>Total liabilities and net assets</b>	<b>63,144</b>	<b>100.0</b>	<b>69,008</b>	<b>100.0</b>	<b>66,923</b>	<b>100.0</b>

## Consolidated statement of income

Millions of yen	Interim period ended September 30, 2006		Interim period ended September 30, 2007		Year ended March 31, 2007	
		%		%		%
<b>Net sales</b>	40,510	100.0	43,561	100.0	82,491	100.0
<b>Cost of sales</b>	23,260	57.4	24,545	56.3	46,600	56.5
Gross profit on sales	17,250	42.6	19,016	43.7	35,890	43.5
<b>Selling, general and administrative expenses</b>	15,071	37.2	16,626	38.2	30,195	36.6
Operating income	2,178	5.4	2,389	5.5	5,695	6.9
<b>Non operating income</b>						
Interest income	30		32		59	
Dividend income	1		1		2	
Foreign exchange gains	69		12		134	
Purchase discounts	-		23		-	
Others	117		68		255	
	217	0.5	137	0.3	451	0.5
<b>Non operating expenses</b>						
Interest expenses	60		88		132	
Loss on disposal of inventories	31		64		85	
Sales discounts	-		25		-	
Valuation loss on swap transactions	57		2		104	
Others	55		34		339	
	204	0.5	214	0.5	662	0.8
Ordinary profit	2,191	5.4	2,312	5.3	5,484	6.6
<b>Extraordinary gains</b>						
Gain on sales of fixed assets	7		16		28	
Others	19		8		80	
	27	0.1	25	0.1	108	0.1
<b>Extraordinary losses</b>						
Loss on business restructuring	98		289		341	
Expenses related to business acquisitions	258		-		328	
Loss on disposal of fixed assets	153		26		165	
Others	58		14		111	
	569	1.4	330	0.8	946	1.1
Income before adjustments for income taxes	1,648	4.1	2,007	4.6	4,646	5.6
Corporate, inhabitants and enterprise taxes	1,276		1,155		2,683	
Deferred taxes	(159)		(99)		(430)	
	1,117	2.8	1,056	2.4	2,253	2.7
Minority interest in income of consolidated subsidiaries	0	0.0	1	0.0	4	0.0
<b>Net income</b>	530	1.3	950	2.2	2,389	2.9

## Consolidated statement of changes in net assets

### September 2006 term

Millions of yen; September 30, 2006	Shareholders' equity				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	
Balance as of Mar 31, 2006	6,331	5,798	24,918	(1,454)	35,593
Changes during the term					
Dividends (Note)			(502)		(502)
Net income			530		530
Disposal of treasury stock		0		5	5
Acquisition of treasury stock				(2)	(2)
Other changes in non-shareholders' equity items during the term (net)					
Total changes during the term	-	0	27	3	31
Balance as of Sep 30, 2006	6,331	5,799	24,946	(1,451)	35,624

Millions of yen; September 30, 2006	Valuation/translation gains (losses)				Total net assets
	Unrealized gains or losses on other securities	Foreign currency translation adjustments	Total valuation/translation gains (losses)	Minority interest in consolidated subsidiaries	
Balance as of Mar 31, 2006	26	499	526	-	36,119
Changes during the term					
Dividends (Note)					(502)
Net income					530
Disposal of treasury stock					5
Acquisition of treasury stock					(2)
Other changes in non-shareholders' equity items during the term (net)	(8)	(19)	(28)	0	(27)
Total changes during the term	(8)	(19)	(28)	0	4
Balance as of Sep 30, 2006	18	479	498	0	36,124

(Note) Earnings appropriated at the Company's Ordinary General Meeting of Shareholders held in June 2006.

**September 2007 term**

Millions of yen; September 30, 2007	Shareholders' equity				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	
Balance as of Mar 31, 2007	6,331	5,799	26,333	(2,059)	36,404
Changes during the term					
Dividends			(528)		(528)
Net income			950		950
Acquisition of treasury stock				(1)	(1)
Increase due to decrease in unfunded reserves related to pension accounting at overseas subsidiaries			111		111
Other changes in non-shareholders' equity items during the term (net)					
Total changes during the term	-	-	532	(1)	530
Balance as of Sep 30, 2007	6,331	5,799	26,865	(2,060)	36,935

Millions of yen; September 30, 2007	Valuation/translation gains (losses)					Total net assets
	Unrealized gains or losses on other securities	Foreign currency translation adjustments	Total valuation/translation gains (losses)	New share subscription rights	Minority interest in consolidated subsidiaries	
Balance as of Mar 31, 2007	7	1,091	1,098	-	4	37,508
Changes during the term						
Dividends						(528)
Net income						950
Acquisition of treasury stock						(1)
Increase due to decrease in unfunded reserves related to pension accounting at overseas subsidiaries						111
Other changes in non-shareholders' equity items during the term (net)	(5)	(96)	(101)	28	1	(71)
Total changes during the term	(5)	(96)	(101)	28	1	458
Balance as of Sep 30, 2007	2	994	997	28	5	37,966

## March 2007 term

Millions of yen; March 31, 2007	Shareholders' equity				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	
Balance as of Mar 31, 2006	6,331	5,798	24,918	(1,454)	35,593
Changes during the term					
Dividends (Note 1)			(502)		(502)
Dividends (Note 2)			(471)		(471)
Net income			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

Millions of yen; March 31, 2007	Valuation/translation gains (losses)			Minority interest in consolidated subsidiaries	Net assets
	Unrealized gains or 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 (Note 1)					(502)
Dividends (Note 2)					(471)
Net income					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 statement of cash flows

Millions of yen	Interim period ended September 30, 2006	Interim period ended September 30, 2007	Year ended March 31, 2007
<b>Net cash provided by operating activities</b>			
Income before adjustments for income taxes	1,648	2,007	4,646
Depreciation expenses	1,040	1,261	2,287
Amortization of goodwill	136	122	197
Loss on disposal of fixed assets	114	26	165
Loss on business restructuring	98	289	341
Expenses related to business acquisitions	258	-	328
Increase (decrease) in allowance for doubtful accounts	5	37	82
Increase (decrease) in reserve for bonuses	65	62	32
Increase (decrease) in reserve for directors' and corporate auditors' bonuses	(54)	(50)	(4)
Increase (decrease) in allowance for product warranty	24	-	24
Increase (decrease) in reserve for employees' retirement benefits	48	137	95
Interest and dividends received	(31)	(34)	(61)
Interest expenses	60	88	132
Foreign exchange loss (gain)	(188)	(27)	162
Gain on sales of tangible fixed assets	(7)	(16)	(28)
Decrease (increase) in notes and accounts receivable	(1,038)	(773)	(1,660)
Decrease (increase) in inventories	(88)	(949)	(818)
Decrease (increase) in prepaid expenses	(260)	(1)	(148)
Decrease (increase) in accounts receivable - other	(115)	(207)	(63)
Increase (decrease) in notes and accounts payable	562	171	(399)
Increase (decrease) in accounts payable - other	1,492	177	1,719
Others	(1,282)	221	(812)
Interest and dividends received	29	34	61
Interest paid	(60)	(88)	(132)
Payments related to losses on business restructuring	(98)	(289)	(341)
Payments related to business acquisition expenses	(258)	-	(328)
Income taxes paid	(1,300)	(1,324)	(2,566)
	802	874	2,912
<b>Net cash used in investing activities</b>			
Payment for deposit to time deposits	-	(119)	-
Purchase of tangible fixed assets	(1,847)	(687)	(3,728)
Proceeds from sales of tangible fixed assets	218	79	413
Purchase of intangible fixed assets	(231)	(387)	(203)
Proceeds from sales of marketable securities	-	4	-
Proceeds from sales of investment securities	-	-	62
Payments for investments in securities	-	-	(41)
Expenses incurred for business acquisitions	(614)	-	(620)
Others	49	(1)	50
	(2,425)	(1,112)	(4,066)



Millions of yen	Interim period ended September 30, 2006	Interim period ended September 30, 2007	Year ended March 31, 2007
<b>Net cash provided by (used in) financing activities</b>			
Increase (decrease) in short-term borrowings	9	809	2,089
Increase (decrease) in long-term debt	227	-	(16)
Decrease in long-term debt	-	(5)	-
Proceeds from sales of treasury stock	5	-	5
Purchase of treasury stock	(2)	(1)	(610)
Cash dividends paid	(502)	(528)	(972)
	(263)	274	496
Effect of exchange rate changes on cash and cash equivalents	112	11	251
Net increase (decrease) in cash and cash equivalents	(1,773)	47	(406)
Cash and cash equivalents at beginning of term	10,751	10,344	10,751
Cash and cash equivalents at end of term	8,977	10,392	10,344

## (Segment information)

### a. Business segment information

Millions of yen	Mechatronic products business	Supply products business	Total	Eliminations	Consolidated
<b>Six months ended September 30, 2006</b>					
Sales					
External customer sales	17,566	22,943	40,510	-	40,510
Intersegment transactions and eliminations	-	-	-	(-)	-
	17,566	22,943	40,510	(-)	40,510
Operating expenses	16,677	21,653	38,331	(-)	38,331
Operating income	888	1,289	2,178	(-)	2,178
<b>Six months ended September 30, 2007</b>					
Sales					
External customer sales	18,245	25,316	43,561	(-)	43,561
Intersegment transactions and eliminations	-	-	-	(-)	-
	18,245	25,316	43,561	(-)	43,561
Operating expenses	16,919	24,252	41,172	(-)	41,172
Operating income	1,326	1,063	2,389	(-)	2,389
<b>Year ended March 31, 2007</b>					
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

(Note) The main products of each business segment are as follows:

Mechatronic products business: electronic printers, hand labelers

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

## b. Geographical segment information

Millions of yen	Japan	North America	Europe	Asia Oceania	Total	Eliminations	Consolidated
<b>Six months ended September 30, 2006</b>							
Sales							
External customers	28,141	4,635	5,097	2,635	40,510	-	40,510
Intersegment sales	1,180	44	709	5,836	7,770	(7,770)	-
	29,322	4,679	5,806	8,471	48,280	(7,770)	40,510
Operating expenses	26,823	4,396	6,177	8,466	45,864	(7,532)	38,331
Operating income	2,498	283	(371)	4	2,415	(237)	2,178
<b>Six months ended September 30, 2007</b>							
Sales							
External customers	29,660	5,051	5,437	3,411	43,561	-	43,561
Intersegment sales	1,696	46	150	4,708	6,602	(6,602)	-
	31,356	5,098	5,588	8,120	50,164	(6,602)	43,561
Operating expenses	29,140	4,834	5,954	7,810	47,739	(6,567)	41,172
Operating income	2,216	263	(365)	309	2,424	(34)	2,389
<b>Year ended March 31, 2007</b>							
Sales							
External customers	56,523	9,422	10,809	5,735	82,491	-	82,491
Intersegment sales	2,690	66	24	8,618	11,399	(11,399)	-
	59,213	9,489	10,833	14,354	93,890	(11,399)	82,491
Operating expenses	53,841	8,854	11,007	14,203	87,906	(11,110)	76,796
Operating income	5,372	634	(173)	150	5,984	(289)	5,695

(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, Spain and Sweden
  - (3) Asia and Oceania: Malaysia, Singapore, Thailand, China, Vietnam, Australia and New Zealand

### c. Overseas sales

Millions of yen	Six months ended September 30, 2006		Six months ended September 30, 2007		Year ended March 31, 2007	
	Overseas sales	As % of net sales	Overseas sales	As % of net sales	Overseas sales	As % of net sales
North America	4,635	11.4	5,051	11.6	9,422	11.4
Europe	5,097	12.6	5,437	12.5	10,809	13.1
Asia, others	2,635	6.5	3,411	7.8	5,735	7.0
	12,368	30.5	13,901	31.9	25,967	31.5
Consolidated sales	40,510		43,561		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.

## **5. Non-Consolidated Financial Statements**

### Non-consolidated balance sheet

Millions of yen	September 30, 2006	%	September 30, 2007	%	March 31, 2007	%
<b>Current assets</b>						
Cash	4,900		7,246		6,867	
Notes receivable	4,171		4,350		4,206	
Accounts receivable	10,553		11,276		10,576	
Inventories	3,809		3,736		4,216	
Others	2,184		2,058		2,267	
Allowance for doubtful accounts	(6)		(10)		(14)	
Total current assets	25,612	41.1	28,659	42.9	28,119	43.0
<b>Fixed assets</b>						
<b>Tangible fixed assets</b>						
Buildings	4,253		4,095		4,195	
Machinery and equipment	1,768		2,034		1,910	
Land	5,616		5,602		5,607	
Others	826		711		724	
Total tangible fixed assets	12,464		12,444		12,438	
<b>Intangible fixed assets</b>	1,342		1,192		1,261	
<b>Investments and other assets</b>						
Capital stock of affiliated companies	18,902		19,657		19,481	
Others	4,078		4,898		4,175	
Allowance for doubtful accounts	(67)		(50)		(65)	
Total investments and other assets	22,913		24,505		23,592	
Total fixed assets	36,720	58.9	38,143	57.1	37,292	57.0
<b>Total assets</b>	<b>62,333</b>	<b>100.0</b>	<b>66,802</b>	<b>100.0</b>	<b>65,411</b>	<b>100.0</b>

Millions of yen	September 30, 2006	%	September 30, 2007	%	March 31, 2007	%
<b>Current liabilities</b>						
Notes payable	1,550		1,948		1,734	
Accounts payable	2,431		2,617		2,799	
Short-term borrowings	3,000		5,000		5,000	
Accounts payable - other	9,809		10,279		9,786	
Income taxes payable	984		937		1,043	
Allowance for directors' and corporate auditors' bonuses	-		-		50	
Allowance for product warranty	24		24		24	
Others	1,489		1,632		1,412	
Total current liabilities	19,288	31.0	22,439	33.6	21,850	33.4
<b>Long-term liabilities</b>						
Reserve for employees' retirement benefits	446		638		503	
Others	432		445		440	
Total long-term liabilities	878	1.4	1,084	1.6	943	1.4
Total liabilities	20,167	32.4	23,523	35.2	22,793	34.8
<b>Net assets</b>						
<b>Shareholders' equity</b>						
Common stock	6,331	10.2	6,331	9.5	6,331	9.7
Capital surplus						
Additional paid-in capital	5,789		5,789		5,789	
Capital reserves - other	9		9		9	
Total capital surplus	5,799	9.3	5,799	8.7	5,799	8.9
Retained earnings						
Legal income reserves	474		474		474	
Others						
Voluntary reserves - total	27,325		27,325		27,325	
Retained earnings carried forward to next term	3,669		5,377		4,739	
Total retained earnings	31,469	50.5	33,177	49.7	32,539	49.7
Treasury stock	(1,451)	(2.4)	(2,060)	(3.2)	(2,059)	(3.1)
Total shareholders' equity	42,147	67.6	43,246	64.7	42,610	65.2
<b>Valuation/translation gains (losses)</b>						
Unrealized gains or losses on other securities	18	0.0	2	0.0	7	0.0
Total valuation/translation gains (losses)	18	0.0	2	0.0	7	0.0
<b>New share subscription rights</b>						
	-	-	28	0.1	-	-
Total net assets	42,166	67.6	43,278	64.8	42,617	65.2
<b>Total liabilities and net assets</b>	<b>62,333</b>	<b>100.0</b>	<b>66,802</b>	<b>100.0</b>	<b>65,411</b>	<b>100.0</b>

## Non-consolidated statement of income

Millions of yen	Six months ended September 30, 2006		Six months ended September 30, 2007		Year ended March 31, 2007	
		%		%		%
<b>Net sales</b>	28,166	100.0	30,141	100.0	56,798	100.0
<b>Cost of sales</b>	16,517	58.6	18,018	59.8	33,289	58.6
Gross profit on sales	11,648	41.4	12,123	40.2	23,509	41.4
<b>Selling, general and administrative expenses</b>	9,273	33.0	10,224	33.8	18,697	33.0
Operating income	2,375	8.4	1,898	6.4	4,811	8.4
<b>Non operating income</b>	201	0.8	187	0.6	368	0.6
<b>Non operating expenses</b>	50	0.2	136	0.5	128	0.2
Ordinary profit	2,526	9.0	1,948	6.5	5,051	8.8
<b>Extraordinary gains</b>	1	0.0	21	0.1	9	0.0
<b>Extraordinary losses</b>	184	0.7	17	0.1	211	0.3
Net income before taxes	2,342	8.3	1,952	6.5	4,849	8.5
Corporate, inhabitant and enterprises taxes	978		857		2,050	
Deferred taxes	(7)		(72)		(113)	
	971	3.4	784	2.6	1,936	3.4
Net income	1,371	4.9	1,167	3.9	2,912	5.1

# Consolidated statement of changes in net assets

*September 2006 term*

Millions of yen; September 30, 2006	Shareholders' equity									
	Capital surplus				Retained earnings					
	Common stock	Additional paid-in capital	Capital reserves - other	Total capital surplus	Others			Total retained earnings	Treasury stock	Total shareholders' equity
Legal income reserves					Voluntary reserves - total	Retained earnings carried forward to next term				
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 reserves (Note)						2,400	(2,400)	-		-
Reversal from voluntary reserves (Note)						0	(0)	-		-
Dividends (Note)							(502)	(502)		(502)
Net income							1,371	1,371		1,371
Disposal of treasury stock			0	0					5	5
Acquisition of treasury stock									(2)	(2)
Other changes in non-shareholders' equity items during the term (net)										
Total changes during the term	-	-	0	0	-	2,400	(1,531)	868	3	872
Balance as of Sep 30, 2006	6,331	5,789	9	5,799	474	27,325	3,669	31,469	(1,451)	42,147

Millions of yen; September 30, 2006	Valuation/translation gains (losses)		Total net assets
	Unrealized gains or losses on other securities	Total valuation/translation gains (losses)	
Balance as of Mar 31, 2006	26	26	41,302
Changes during the term			
Addition to voluntary reserves (Note)			-
Reversal from voluntary reserves (Note)			-
Dividends (Note)			(502)
Net income			1,371
Disposal of treasury stock			5
Acquisition of treasury stock			(2)
Other changes in non-shareholders' equity items during the term (net)	(8)	(8)	(8)
Total changes during the term	(8)	(8)	863
Balance as of Sep 30, 2006	18	18	42,166

(Note) Earnings appropriated at the Company's Ordinary General Meeting of Shareholders held in June 2006.



## September 2007 term

Millions of yen; September 30, 2007	Shareholders' equity									
	Capital surplus				Retained earnings					
	Common stock	Additional paid-in capital	Capital reserves - other	Total capital surplus	Legal income reserves	Others		Total retained earnings	Treasury stock	Total shareholders' equity
						Voluntary reserves - total	Retained earnings carried forward to next term			
Balance as of Mar 31, 2007	6,331	5,789	9	5,799	474	27,325	4,739	32,539	(2,059)	42,610
Changes during the term										
Dividends							(528)	(528)		(528)
Net income							1,167	1,167		1,167
Acquisition of treasury stock									(1)	(1)
Other changes in non-shareholders' equity items during the term (net)										
Total changes during the term	-	-	-	-	-	-	638	638	(1)	636
Balance as of Sep 30, 2007	6,331	5,789	9	5,799	474	27,325	5,377	33,177	(2,060)	43,246

Millions of yen; September 30, 2007	Valuation/translation gains (losses)		New share subscription rights	Total net assets
	Unrealized gains or losses on other securities			
Balance as of Mar 31, 2007		7	-	42,617
Changes during the term				
Dividends				(528)
Net income				1,167
Acquisition of treasury stock				(1)
Other changes in non-shareholders' equity items during the term (net)		(5)	28	23
Total changes during the term		(5)	28	660
Balance as of Sep 30, 2007		2	28	43,278

## March 2007 term

Millions of yen; March 31, 2007	Shareholders' equity									
	Capital surplus				Retained earnings					
	Common stock	Additional paid-in capital	Capital reserves - other	Total capital surplus	Others			Total retained earnings	Treasury stock	Total shareholders' equity
					Legal income reserves	Voluntary reserves - total	Retained earnings carried forward to next term			
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 reserves (Note 1)						2,400	(2,400)	-		-
Reversal from voluntary reserves (Note 1)						0	(0)	-		-
Dividends (Note 1)							(502)	(502)		(502)
Dividends (Note 2)							(471)	(471)		(471)
Net income							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

Millions of yen; March 31, 2007	Valuation/translation gains (losses)	
	Unrealized gains or losses on other securities	Total net assets
Balance as of Mar 31, 2006	26	41,302
Changes during the term		
Addition to voluntary reserves (Note 1)		-
Reversal from voluntary reserves (Note 1)		-
Dividends (Note 1)		(502)
Dividends (Note 2)		(471)
Net income		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)
Total changes during the term	(19)	1,315
Balance as of Mar 31, 2007	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.