Kessan Report for the March 2009 Term (Consolidated)

May 14, 2009

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, Director, Vice President, General Manager, Corporate Planning & Administration Division Phone: 03-5789-2500

Date of regular General Meeting of Shareholders: June 19, 2009
Date of commencement of dividend payments: June 22, 2009
Scheduled submission date for annual securities report: June 22, 2009

1. Consolidated operating results for the fiscal year ended March 31, 2009 (from April 1, 2008 to March 31, 2009)

(1) Consolidated financial results

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

	Net sales		Operating income		Ordinary income		Net income	
Fiscal year ended	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
March 31, 2009	78,163	(11.0)	730	(86.5)	356	(92.5)	2,050	(0.6)
March 31, 2008	87,790	6.4	5,404	(5.1)	4,750	(13.4)	2,062	(13.7)

	Net income per share	Net income per share, fully diluted	Return on equity ratio	Ratio of ordinary income to total assets	Ratio of operating income to net sales
Fiscal year ended	(Yen)	(Yen)	%	%	%
March 31, 2009	67.40	-	5.7	0.6	0.9
March 31, 2008	66.70	-	5.6	7.1	6.2

(N.B.) Gains or losses on investments through equity method accounting:
March 2009 term: - March 2008 term: -

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	(Millions of yen)	(Millions of yen)	%	(Yen)
March 31, 2009	61,692	35,918	58.1	1,189.50
March 31, 2008	66,103	36,671	55.4	1,195.69

(N.B.) Total equity:
March 2009 term: ¥35,818 million March 2008 term: ¥36,604 million

(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 period
Fiscal year ended	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
March 31, 2009	4,994	(2,217)	(2,476)	10,814
March 31, 2008	4,108	(2,522)	(793)	11,035

2. Dividends

(Record date)	Annual dividend per share					Total dividends paid (for the year)	Dividend payout ratio (consolidated)	Dividends to net assets (consolidated)
	First quarter	Second quarter	Third quarter	End of term	Annual			
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)	(Millions of yen)	%	%
March 31, 2008	-	16.00	-	17.00	33.00	1,018	49.5	2.8
March 31, 2009	-	16.00	-	17.00	33.00	1,001	49.0	2.8
March 31, 2010 (Forecast)	-	16.00	-	17.00	33.00		-	

3. Consolidated forecasts for March 2010 term (from April 1, 2009 to March 31, 2010)

(Percent figures show year-on-year change)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Yen)
First six months	35,000	(18.2)	200	(88.8)	0	-	(500)	-	(16.44)
Annual	73,000	(6.6)	1,500	105.5	1,200	237.0	0	-	0.00

4. Others

(1) Changes in significant subsidiaries during the term (changes in specified subsidiaries resulting in the change in scope of consolidation): None

New: — Elimination: —

(2) Changes in accounting policies, procedures, and methods of presentation for preparing the consolidated financial statements (changes described in the section of "Changes in significant matters forming the basis of preparing the consolidated financial statements")

1) Changes due to revisions to accounting standards: Yes

2) Changes due to other reasons: Yes

(3) Number of issued shares (common stock)

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

March 31, 2009: 32,001,169 shares

March 31, 2008: 32,001,169 shares

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

March 31, 2009: 1,889,170 shares

March 31, 2008: 1,387,727 shares

(N.B.) Non-consolidated operating results

1. Non-consolidated operating results (April 1, 2008 to March 31, 2009)

(1) Non-consolidated financial results

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

	Net sales		Operating income		Ordinary income		Net income	
Fiscal year ended	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
March 31, 2009	56,096	(7.7)	1,813	(57.8)	1,925	(52.5)	(5,389)	-
March 31, 2008	60,778	7.0	4,299	(10.6)	4,049	(19.8)	2,394	(17.8)

	Net income per share	Net income per share, fully diluted
Fiscal year ended	(Yen)	(Yen)
March 31, 2009	(177.16)	-
March 31, 2008	77.42	-

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	(Millions of yen)	(Millions of yen)	%	(Yen)
March 31, 2009	58,772	36,282	61.6	1,201.82
March 31, 2008	66,621	43,148	64.7	1,407.54

(N.B.) Total equity:

March 2009 term: ¥36,189 million March 2008 term: ¥43,089 million

**** 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 pages 5～6.

1. Results of Operations

(1) Analysis of financial performance

a. Operating Performance

During the fiscal year under review, the global economy rapidly deteriorated from September onward as the financial turmoil originating in the U.S.A. impacted heavily on the real economies of countries around the globe. In addition, the strengthening of the yen and falling stock prices caused a sudden change in the business environment, creating very difficult conditions characterized by constrictions on capital investment and employment adjustments.

Domestically, the SATO Group continued to offer proactive proposals to meet demands for traceability and streamlined operations by providing “precision, labor savings, resource saving” using auto-identification technology in a number of sectors notably food processing, manufacturing, transportation and healthcare. Despite this, and active efforts to expand sales, corporate activities under this severe economic environment were weak as client companies were disinterested in capital investment and inventory adjustments were of prime concern. As a result, net sales in Japan declined by ¥2,828 million from the previous fiscal year. Overseas, net sales declined by ¥6,799 million from the same period of the previous year, a figure that reflects the rapid deterioration of the global economy that led to sudden declines in sales in countries in the Americas, Europe, Asia and Oceania, and a foreign exchange effect of ¥3,340 million due to the strong yen.

In terms of profits, the Group worked to further reduce costs and find savings in various business expenses to compensate for a reduction in sales. In Europe, where structural reforms to operations are ongoing, the operation method used in Japan was introduced for both sales and management in an effort to turn that region around. And as part of improvement of the corporate constitution, at some subsidiaries, we implemented revision of the accounting of reserves, lump-sum amortization of goodwill, impairment of noncurrent assets and reversal of deferred tax assets to revamp the accounts. As a result, we could not avoid significant decreases in operating income, ordinary income and net income before income taxes. Concerning net income, the Board of Directors, at a meeting held on April 3, 2009, resolved to disband SATO INTERNATIONAL PTE. LTD. (located in Singapore, hereinafter, “SI”), which controls overseas sales and marketing companies, as part of structural reform efforts, and preparations are underway to begin liquidation procedures in October 2009. For this, we applied tax effect accounting for losses on liquidation of SI and recorded ¥4,400 million in deferred tax assets.

As a result of the foregoing, net sales during the fiscal year under review decreased by 11.0% to ¥78,163 million; operating income decreased by 86.5% to ¥730 million; ordinary income decreased by 92.5% to ¥356 million; and net income decreased by 0.6% to ¥2,050 million.

By segment, the Group reported the following:

By business segment

(a) Mechatronic products business

Net sales declined by 15.0% to ¥31,325 million; an operating loss of ¥81 million was recorded compared to an operating income of ¥2,716 million in the previous fiscal year.

(b) Supply products business

Net sales declined by 8.1% to ¥46,837 million; operating income declined by 69.8% to ¥811 million.

By geographical segment

(a) Japan

Net sales declined by 4.7% to ¥57,185 million; operating income declined by 42.2% to ¥2,885 million.

(b) North America

Net sales declined by 23.1% to ¥7,489 million; operating income declined by 47.3% to ¥275 million.

(c) Europe

Net sales declined by 24.2% to ¥8,459 million; an operating loss of ¥1,559 million was recorded compared to an operating loss of ¥482 million in the previous fiscal year.

(d) Asia and Oceania

Net sales declined by 26.9% to ¥5,028 million; an operating loss of ¥517 million was recorded compared to an operating income of ¥528 million in the previous fiscal year.

b. Forecast for the fiscal year ending March 2010

Concerning the forecast for the fiscal year ending March 2010, the further worsening of the serious global recession which emerged from financial uncertainties in the U.S.A. and continuing obscurity about the future will not only greatly affect the performance of the Group particularly in Europe, which underwent reforms, but also shed light on managerial issues of the Company.

The Group will use these circumstances as an opportunity to establish a profit structure geared towards future growth and make fundamental structural reforms. Specifically, in our overseas business, whose base stills lacks strength, we will bring down organizational walls that were built up to increase our on-site capabilities and inject our Japanese operational know-how without modification into local areas. To achieve this, we resolved, at meeting of the Board of Directors held on April 3, 2009, to disband our consolidated subsidiary SI and we are now preparing to commence liquidation procedures in October 2009.

Also, making our European business profitable has become a continuous issue and, to that end, the local introduction of our domestic sales know-how is gradually showing results and improvements in the area of business operations are progressing. The Group will further advance structural reforms and, in the latter half of the fiscal year ending March 2010, reconstruct label production and supply systems in all of Europe and put in place a profit structure for each subsidiary. In precise terms, fundamental revisions to plant systems that include moving production operations to Spain and Poland and minimizing production at our German subsidiary's label-manufacturing plant will be effected rapidly as part of our aim to establish a profit structure through major fixed cost reductions. Moreover, label plants at British and Spanish subsidiaries will also be targeted for fixed cost reductions after those at the German subsidiary.

The Group will integrate its group operation systems both in Japan and overseas and implement thorough business policies and measures that meet regional needs. The Company will set up systems that can utilize our domestic know-how and assets including for label manufacturing, printer products promotion, services, SCM, information systems, personnel and other main functions supporting our business activities. These will be leveraged to optimize the entire Group, activate on-site organizations and reduce the size of headquarters and management divisions all for the early realization of a profit structure.

Demand for the "precision, labor savings, and resource saving" provided by the Group is recognized as strong in every market and region and all our strengths are focused to respond to customer needs. Since the first half of the fiscal year ended March 2009, we have been introducing new products one after the other as part of our plan to spur demand for investments in streamlining for each market and application.

Based on the foregoing, the Company forecasts the following results for the fiscal year ending March 2010: net sales, ¥73,000 million (down 6.6%); operating income, ¥1,500 million (up 105.5%); ordinary income, ¥1,200 million (up 237.0%); and net income, ¥0 million (a net income of ¥2,050 million was recorded in the fiscal year ended March 2009).

Foreign exchange rates assumed in the above forecast: US$ = ¥95 and Euro = ¥125.

(2) Analysis of financial position

a. Assets, liabilities and net assets

At the end of the fiscal year under review, current assets were ¥36,912 million, a decrease of ¥7,416 million (¥44,329 million recorded at the end of the previous fiscal year). This was primarily the result of decreases in notes and accounts receivable-trade of ¥5,030 million, and inventories of ¥1,954 million. The balance of noncurrent assets was ¥24,780 million (¥21,773 million at the end of the previous fiscal year), an increase of ¥3,006 million. This is the result of the recording of depreciation expenses and the impairment of goodwill and of buildings and structures despite an increase in long-term deferred tax assets of ¥3,960 million.

Current liabilities were ¥21,285 million (¥27,023 million at the end of the previous fiscal year), a decrease of ¥5,737 million. This was primarily due to a decrease of ¥1,831 million in notes and accounts payable-trade and a decrease of ¥3,075 million in short-term loans payable, including those refinanced as long-term loans. Noncurrent liabilities were ¥4,489 million (¥2,408 million in the previous fiscal year), an increase of ¥2,080 million. This is primarily due to an increase in long-term loans payable.

Net assets at the end of the fiscal year under review were ¥35,918 million (¥36,671 million at the end of the previous fiscal year), a decrease of ¥753 million. This was primarily as a result of a ¥503 million decrease from the purchase of treasury stock, a ¥1,010 million decrease in cash dividends paid and a decrease of ¥1,344 million in valuation and translation adjustments despite an increase in retained earnings of ¥2,050 million due to the recording of net income.

b. Cash flows

Consolidated cash and cash equivalents (referred to below as “cash”) decreased by ¥220 million compared to the previous fiscal year and totaled ¥10,814 million.

The major cash flow-related factors for the March 2009 term are outlined below.

Net cash provided by operating activities

Net cash provided by operating activities amounted to ¥4,994 million.

This primarily reflected the decreases of ¥3,920 million in notes and accounts receivable-trade and of ¥1,114 million in inventories, respectively, in addition to income factors such as the ¥2,620 million in depreciation and amortization expenses, despite ¥431 million in loss before income taxes and minority interests. This was partially offset by a ¥1,654 million decrease in notes and accounts payable-trade and ¥1,745 million in income taxes paid.

Net cash used in investing activities

Net cash used in investing activities totaled ¥2,217 million.

This mainly reflected the result of the purchase of ¥1,549 million in property, plant and equipment and of ¥337 million in intangible assets.

Net cash used in financing activities

Net cash used in financing activities amounted to ¥2,476 million.

This was principally due to a decrease in loans payable of ¥962 million, ¥1,009 million in cash dividends paid and ¥503 million for the purchase of treasury stock.

Trend in cash flow indices

	March 31, 2006	March 31, 2007	March 31, 2008	March 31, 2009
Equity ratio (%)	58.6	56.0	55.4	58.1
Equity ratio based on market value (%)	143.8	110.7	58.9	35.0
Ratio of cash flow to interest-bearing debt (%)	76.9	198.8	165.2	110.9
Interest-coverage ratio	46.8	22.0	22.7	35.3

(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.
7. 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 investment efficiency based on a stable and continuous dividend as well as internal reserve retained for future business expansion comprehensively taking into consideration performance and business environment.

In accordance with this policy of providing stable and continuous dividends, the Company declared total dividends for the year ended March 31, 2009, of ¥33 per share, consisting of a year-end dividend of ¥17 per share as planned and an interim dividend of ¥16 per share. The company plans an annual dividend of ¥33 yen per share for the year ending March 31, 2010.

(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 healthcare 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 Group 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 Group 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. The Company believes, 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 activities

- 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 a corporate group mainly consisting of the Company and 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 and business segment information are as shown below.

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

Business	Main products and services	Contents	Companies
Mechatronic products business			
Electronic printers	Electronic printers, labeling robots, automatic labelers, maintenance services	Administration	SATO CORPORATION SATO INTERNATIONAL PTE. LTD. (Singapore) *Responsible for the administration of the following subsidiaries:* 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. U. (Spain) SATO POLSKA SP. Z O. 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)

Business	Main products and services	Contents	Companies
Hand labelers	One line hand labelers, multiline hand labelers, software, maintenance services	Administration	SATO CORPORATION SATO INTERNATIONAL PTE. LTD. (Singapore) *Responsible for the administration of the following subsidiaries:* 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. U. (Spain) SATO POLSKA SP. Z O. 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)

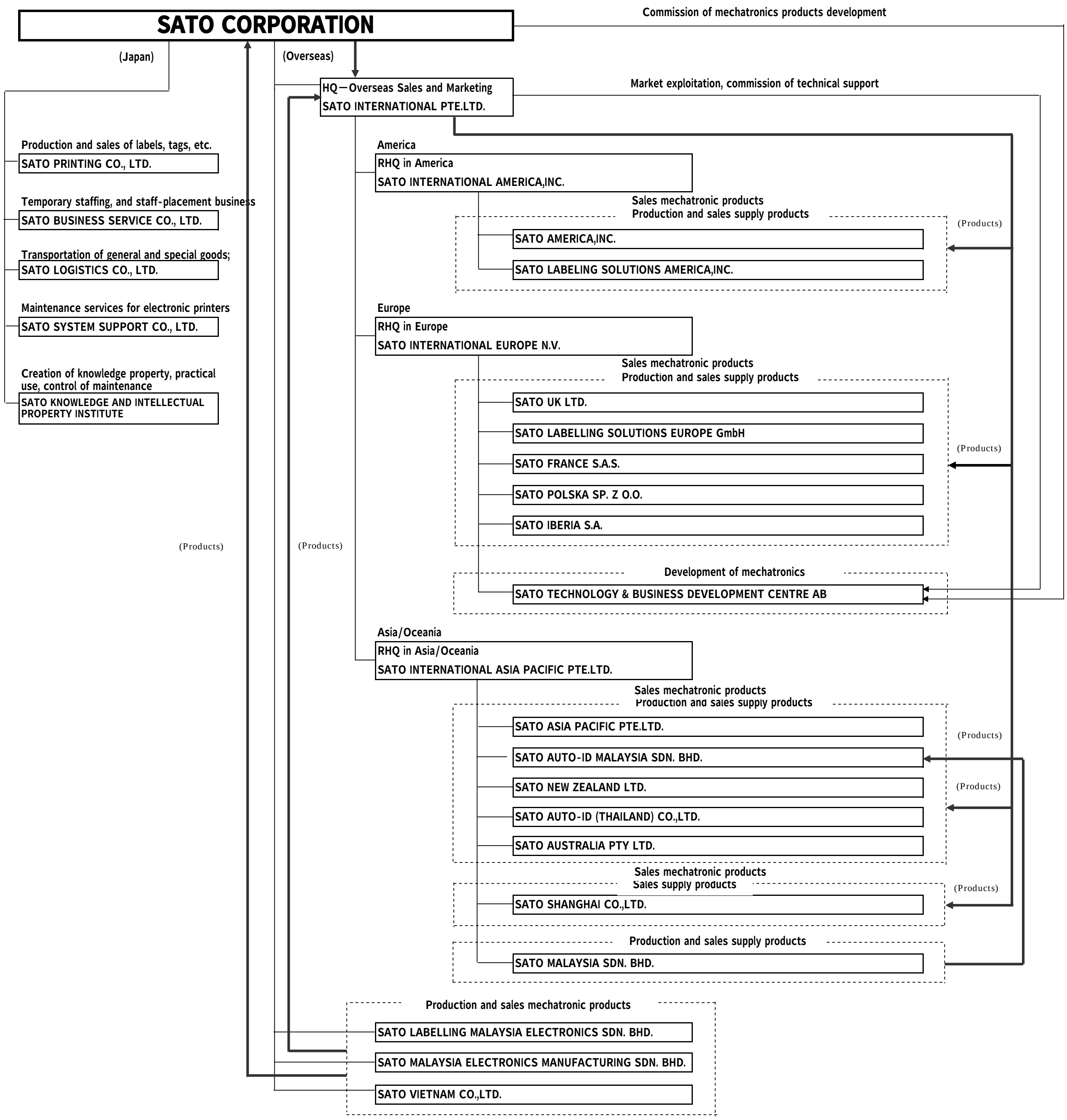
Business	Main products and services	Contents	Companies
Supply products business			
IC tags/labels, labels, tags, tickets, ribbons, MC-cards and other supply products	Electronic printer labels/tags, hand labeler labels, IC tags/labels, labels, tickets, ribbons, MC-cards	Administration	SATO CORPORATION SATO INTERNATIONAL PTE. LTD. (Singapore) *Responsible for the administration of the following subsidiaries:* 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. U. (Spain) SATO POLSKA SP. Z O. 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 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. U. (Spain) SATO ASIA PACIFIC PTE. LTD. (Singapore) SATO POLSKA SP. Z O. 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. (14 companies)
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. U., 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. Z O. 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 “ceaseless 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 “precision, labor savings, and resource saving.”

(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 (EPS). It considers these two indices to be benchmarks by which to measure its progress toward increasing shareholder value. For the year ending March 2016, its targets are: net sales of ¥150 billion; an operating income ratio of 10% or more; and EPS of over ¥200.

(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 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 “ceaseless 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

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, our unique business concept, and to make social contributions in other countries by enabling users of its products to achieve “precision, labor savings, and resource saving,” the Group will have to advance the following policies.

- Fortifying the profit structure

(1) Fundamental reform of group operation

By resolution of the Board of Directors at a meeting held on April 3, 2009, SATO INTERNATIONAL PTE. LTD. (located in Singapore, hereinafter, “SI”), a consolidated subsidiary, was dissolved and we are now preparing to commence liquidation procedures in October 2009.

In February 2001, SI was established in Singapore and aggressive overseas business promotion ensued with the aim of proliferating globally “DCS & Labeling,” the Company’s core business. Since then, although SI played a central role in the globalization of our operation, as exemplified by a major acquisition in January 2006, painstaking efforts to establish a profit structure failed to prevent significant losses accumulating in the overseas business. This revealed to us the limits of operating our business in the conventional way with domestic and overseas activities separate and we have thus embarked on a path that will realize an integrated group operation that does not differentiate between domestic and overseas operations, the activation of on-site organizations and a reduction in the size of our headquarters and management divisions all for the early realization of a profit structure.

Customer-oriented business activities such as sales and service will be divided into four regions, namely Japan, North America, Europe, Asia and Oceania for thorough business policies and measures that meet regional needs. In addition, we will set up systems that can utilize our domestic know-how and assets including for label manufacturing, printer products promotion, services, SCM, information systems, personnel and other main functions supporting our business activities, and aim to optimize the entire Group.

(2) Structural reform of European business

Making our European business profitable has become a continuous issue and, to that end, the local introduction of our domestic sales know-how is gradually showing results and improvements in the area of business operations are progressing. The Group will further advance structural reforms and, in the first half of the fiscal year ending March 2010, reconstruct label production and supply systems in all of Europe and put in place a profit structure for each subsidiary. In precise terms, fundamental revisions to plant systems that include moving production operations to Spain and Poland and minimizing production at our German subsidiary’s label-manufacturing plant will be effected rapidly as part of our aim to establish a profit structure through major fixed cost reductions. Moreover, label plants at British and Spanish subsidiaries will also be targeted for fixed cost reductions after those at the German subsidiary. The Group will integrate its group operation systems both in Japan and overseas and implement thorough business policies and measures that meet regional needs.

- Dealing with the issue of high raw material prices

In case of a rise in prices for a variety of raw materials such as crude oil, the Group is required to respond promptly to ensure profitable operations. A price increase of paper materials used for labels would place considerable pressure on profits. The Group will endeavor to reduce costs by enhancing manufacturing efficiencies and by increasing the amount of paper materials sourced overseas. In addition, as it continues to obtain the understanding of its customers, it will gradually increase the prices of its products. Prices of materials for components for mechatronics products are also increasing. However, the Group will endeavor to avoid impacts on manufacturing costs by increasing manufacturing productivity at its Malaysia and Vietnam plants.

- Promoting basic R&D

The Group is engaged in the development of mechatronic products that incorporate new technologies and the development of label products that incorporate new base materials and new printing technologies. By strengthening its ability to develop new technologies, the Group will endeavor to differentiate its products from those of other companies, while creating an association in the market's mind that " SATO, a technology-driven product innovator." Also, in order to respond to increasingly diverse and sophisticated needs in the market, the Group will take action not only internally but also through operational alliances, by which it actively seeks to utilize exceptional know-how from outside the Group.

- Development of new markets and sales channels

  In order to achieve its medium-to-long term management goals for the year ending March 2016, the Group will have to develop markets not only in areas where demand has already emerged but also in new markets that it identifies from a global perspective. In China, where it will be focusing the greatest amount of its energy and resources over the immediate future, wages are continuing to rise as a result of increasing direct investment by Japanese and other foreign enterprises. Consequently, the need for such companies to invest in labor saving technologies is increasing each year, leading to a growing number of inquiries for the Group from companies in a wide range of areas. The Group is thus working to respond to demand for greater efficiency in logistics and manufacturing by propping up our sales efforts with respect to Japanese-owned companies, including automobile manufacturers, electronics companies, and electrical appliance makers, making new advances toward local companies and fortifying relations with dealers. At the same time, the Group will take steps to increase its business hereafter in other promising markets, such as Central and South America, Russia and India.

  Based on the notion that the demand for the "precision, labor savings, and resources saving" provided by the Company is strong, we will spur demand for investments in streamlining for each market and application, focus on opening new sales channels such as OEM and business tie-ups and combine forces to expand sales.

- Dealing with the environment

  Recognizing that environmental conservation is a key issue for all mankind and vital to sustain the operation of our business, the Group aims to not only provide products and services that have minimal impact on the global environment but also to achieve environmental harmony in all of its businesses.

  The Group's "ecomatch" solutions, which support customers' environmental activities, comprehensively provide supplies, printers and recycling systems that help realize the themes "Reduce," "Reuse," and "Recycle." There is an increase in customers who use not only our "non-sepa" labels (labels without liners) and printers that can handle these "non-sepa" sheets but also our label without liners and used ribbon recycling support system. In addition, we have launched new printers that can print simultaneously on both sides of our “combination labels” (”non-sepa” combination labels without liners). For all customer applications, the Group will propose various solutions in which the “environment” is the key aspect of the product.

4. Consolidated Financial Statements

(1) Consolidated balance sheets

Millions of yen	March 31, 2008	March 31, 2009
Assets		
Current assets		
Cash and deposits	10,926	10,726
Notes and accounts receivable-trade	20,334	15,304
Short-term investment securities	108	88
Inventories	11,127	–
Merchandise and finished goods	–	7,249
Work in process	–	135
Raw materials and supplies	–	1,788
Accounts receivable-other	675	907
Deferred tax assets	369	277
Other	1,011	716
Allowance for doubtful accounts	(226)	(282)
Total current assets	44,329	36,912
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	10,340	9,911
Accumulated depreciation	(4,914)	(5,096)
Buildings and structures, net	5,425	4,814
Machinery, equipment and vehicles	10,312	10,100
Accumulated depreciation	(6,588)	(6,474)
Machinery, equipment and vehicles, net	3,724	3,625
Tools, furniture and fixtures	5,212	5,220
Accumulated depreciation	(3,949)	(3,840)
Tools, furniture and fixtures, net	1,262	1,379
Land	5,380	5,366
Construction in progress	54	628
Total property, plant and equipment	15,846	15,815
Intangible assets		
Goodwill	997	420
Software	1,683	1,277
Leasehold right	223	173
Other	211	162
Total intangible assets	3,115	2,034
Investments and other assets		
Investment securities	247	331
Long-term loans receivable	42	315
Guarantee deposits	817	825
Deferred tax assets	997	4,957
Other	752	595
Allowance for doubtful accounts	(46)	(94)
Total investments and other assets	2,811	6,931
Total noncurrent assets	21,773	24,780
Total assets	66,103	61,692

Millions of yen	March 31, 2008	March 31, 2009
Liabilities		
Current liabilities		
Notes and accounts payable-trade	5,845	4,013
Short-term loans payable	6,558	3,483
Accounts payable-other	10,394	10,297
Lease obligations	–	97
Income taxes payable	734	192
Provision for bonuses	221	84
Provision for directors' bonuses	42	–
Provision for product warranties	24	29
Other	3,202	3,086
Total current liabilities	27,023	21,285
Noncurrent liabilities		
Long-term loans payable	8	2,000
Lease obligations	–	478
Provision for retirement benefits	1,811	1,613
Long-term accounts payable for directors' retirement benefits	245	245
Other	343	151
Total noncurrent liabilities	2,408	4,489
Total liabilities	29,431	25,774
Net assets		
Shareholders' equity		
Capital stock	6,331	6,331
Capital surplus	5,799	5,799
Retained earnings	27,481	28,539
Treasury stock	(2,953)	(3,457)
Total shareholders' equity	36,658	37,213
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	5	8
Foreign currency translation adjustment	(59)	(1,403)
Total valuation and translation adjustments	(53)	(1,394)
Subscription rights to shares	58	93
Minority interests	8	6
Total net assets	36,671	35,918
Total liabilities and net assets	66,103	61,692

(2) Consolidated statements of income

Millions of yen	Year ended March 31, 2008	Year ended March 31, 2009
Net sales	87,790	78,163
Cost of sales	49,932	45,763
Gross profit	37,857	32,399
Selling, general and administrative expenses	32,453	31,669
Operating income	5,404	730
Non-operating income		
Interest income	78	66
Dividends income	2	3
Purchase discounts	39	33
Gain on valuation of swaps	121	135
Rent income	20	12
Other	124	121
Total non-operating income	385	372
Non-operating expenses		
Interest expenses	180	142
Loss on disposal of inventories	105	–
Foreign exchange losses	562	468
Other	190	135
Total non-operating expenses	1,039	746
Ordinary income	4,750	356
Extraordinary income		
Gain on sales of noncurrent assets	44	17
Other	13	1
Total extraordinary income	58	19
Extraordinary loss		
Restructuring loss	419	150
Loss on retirement of noncurrent assets	55	29
Loss on prior period adjustment	–	323
Loss on sales of noncurrent assets	85	6
Impairment loss	4	295
Contribution for income tax for prior periods for employees on loan to overseas subsidiaries	40	–
Provision of allowance for doubtful accounts	22	–
Other	18	1
Total extraordinary losses	646	807
Income (loss) before income taxes and minority interests	4,162	(431)
Income taxes-current	2,250	1,395
Income taxes-deferred	(153)	(3,878)
Total income taxes	2,097	(2,483)
Minority interests in income	1	1
Net income	2,062	2,050

(3) Consolidated statements of changes in net assets

Millions of yen	Year ended March 31, 2008	Year ended March 31, 2009
Shareholders' equity		
Capital stock		
Balance at the end of previous period	6,331	6,331
Changes of items during the period		
Total changes of items during the period	–	–
Balance at the end of current period	6,331	6,331
Capital surplus		
Balance at the end of previous period	5,799	5,799
Changes of items during the period		
Total changes of items during the period	–	–
Balance at the end of current period	5,799	5,799
Retained earnings		
Balance at the end of previous period	26,333	27,481
Effect of changes in accounting policies applied to foreign subsidiaries	–	18
Changes of items during the period		
Dividends from surplus	(1,026)	(1,010)
Net income	2,062	2,050
Increase due to decrease in unfunded pension liabilities at overseas subsidiaries	111	–
Total changes of items during the period	1,147	1,040
Balance at the end of current period	27,481	28,539
Treasury stock		
Balance at the end of previous period	(2,059)	(2,953)
Changes of items during the period		
Purchase of treasury stock	(893)	(503)
Total changes of items during the period	(893)	(503)
Balance at the end of current period	(2,953)	(3,457)
Total shareholders' equity		
Balance at the end of previous period	36,404	36,658
Effect of changes in accounting policies applied to foreign subsidiaries	–	18
Changes of items during the period		
Dividends from surplus	(1,026)	(1,010)
Net income	2,062	2,050
Purchase of treasury stock	(893)	(503)
Increase due to decrease in unfunded pension liabilities at overseas subsidiaries	111	–
Total changes of items during the period	253	536
Balance at the end of current period	36,658	37,213

Millions of yen	Year ended March 31, 2008	Year ended March 31, 2009
Valuation and translation adjustments		
Valuation difference on available-for-sale securities		
Balance at the end of previous period	7	5
Changes of items during the period		
Net changes of items other than shareholders' equity	(2)	3
Total changes of items during the period	(2)	3
Balance at the end of current period	5	8
Foreign currency translation adjustment		
Balance at the end of previous period	1,091	(59)
Changes of items during the period		
Net changes of items other than shareholders' equity	(1,150)	(1,344)
Total changes of items during the period	(1,150)	(1,344)
Balance at the end of current period	(59)	(1,403)
Total valuation and translation adjustments		
Balance at the end of previous period	1,098	(53)
Changes of items during the period		
Net changes of items other than shareholders' equity	(1,152)	(1,340)
Total changes of items during the period	(1,152)	(1,340)
Balance at the end of current period	(53)	(1,394)
Subscription rights to shares		
Balance at the end of previous period	–	58
Changes of items during the period		
Net changes of items other than shareholders' equity	58	34
Total changes of items during the period	58	34
Balance at the end of current period	58	93
Minority interests		
Balance at the end of previous period	4	8
Changes of items during the period		
Net changes of items other than shareholders' equity	3	(1)
Total changes of items during the period	3	(1)
Balance at the end of current period	8	6
Total net assets		
Balance at the end of previous period	37,508	36,671
Effect of changes in accounting policies applied to foreign subsidiaries	–	18
Changes of items during the period		
Dividends from surplus	(1,026)	(1,010)
Net income	2,062	2,050
Purchase of treasury stock	(893)	(503)
Increase due to decrease in unfunded pension liabilities at overseas subsidiaries	111	–
Net changes of items other than shareholders' equity	(1,090)	(1,307)
Total changes of items during the period	(836)	(771)
Balance at the end of current period	36,671	35,918

(4) Consolidated statements of cash flows

Millions of yen	Year ended March 31, 2008	Year ended March 31, 2009
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	4,162	(431)
Depreciation and amortization	2,571	2,620
Amortization of goodwill	232	214
Gain on sales of fixed assets	(44)	(17)
Loss on sales of fixed assets	85	6
Loss on retirement of noncurrent assets	55	29
Loss on business restructuring	419	150
Increase (decrease) in allowance for doubtful accounts	12	146
Increase (decrease) in provision for bonuses	0	(23)
Increase (decrease) in provision for retirement benefits	54	26
Increase (decrease) in provision for directors' bonuses	(7)	(42)
Interest and dividends income	(80)	(70)
Interest expenses	180	142
Foreign exchange losses (gains)	(373)	660
Decrease (increase) in notes and accounts receivable-trade	(119)	3,920
Decrease (increase) in inventories	(408)	1,114
Decrease (increase) in prepaid expenses	(143)	98
Decrease (increase) in accounts receivable-other	1	(251)
Increase (decrease) in notes and accounts payable-trade	149	(1,654)
Increase (decrease) in accounts payable-other	(22)	(167)
Other, net	764	489
Subtotal	7,490	6,962
Interest and dividends income received	80	70
Interest expenses paid	(180)	(141)
Payment for loss on business restructuring	(419)	(150)
Payment of contribution for income tax for prior periods for employees on loan to overseas subsidiaries	(40)	–
Income taxes paid	(2,822)	(1,745)
Net cash provided by (used in) operating activities	4,108	4,994
Net cash provided by (used in) investing activities		
Payments into time deposits	(114)	–
Proceeds from withdrawal of time deposits	114	–
Purchase of investment securities	(70)	(100)
Purchase of property, plant and equipment	(1,897)	(1,549)
Proceeds from sales of property, plant and equipment	348	72
Purchase of intangible assets	(574)	(337)
Payments for transfer of business	(68)	–
Other, net	(260)	(304)
Net cash provided by (used in) investing activities	(2,522)	(2,217)

Millions of yen	Year ended March 31, 2008	Year ended March 31, 2009
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	1,135	(2,955)
Proceeds from long-term loans payable	–	2,000
Repayment of long-term loans payable	(10)	(7)
Purchase of treasury stock	(893)	(503)
Cash dividends paid	(1,025)	(1,009)
Other, net	(0)	–
Net cash provided by (used in) financing activities	(793)	(2,476)
Effect of exchange rate change on cash and cash equivalents	(100)	(521)
Net increase (decrease) in cash and cash equivalents	690	(220)
Cash and cash equivalents at beginning of period	10,344	11,035
Cash and cash equivalents at end of period	11,035	10,814

(Segment information)

a. Business segment information

Years ended March 31; Millions of yen	Mechatronic products business	Supply products business	Total	Eliminations and corporate	Consolidated
2009					
Sales					
External customer sales	31,325	46,837	78,163	(-)	78,163
Intersegment transactions and transfer	-	-	-	(-)	(-)
	31,325	46,837	78,163	(-)	78,163
Operating expenses	31,407	46,026	77,433	(-)	77,433
Operating income	(81)	811	730	(-)	730
Assets	26,703	28,051	54,755	6,937	61,692
Depreciation and amortization	1,095	1,524	2,620	(-)	2,620
Impairment loss	164	131	295	(-)	295
Capital expenditures	1,105	1,271	2,376	(-)	2,376
2008					
Sales					
External customer sales	36,851	50,939	87,790	(-)	87,790
Intersegment transactions and eliminations	-	-	-	(-)	-
	36,851	50,939	87,790	(-)	87,790
Operating expenses	34,134	48,251	82,386	(-)	82,386
Operating income	2,716	2,687	5,404	(-)	5,404
Assets	29,905	29,024	58,929	7,173	66,103
Depreciation and amortization	1,142	1,428	2,571	(-)	2,571
Capital expenditures	1,011	1,445	2,457	(-)	2,457

(Notes)

1. Business segments are classified into Mechatronic products business and Supply products business according to the category of products. The main products of each business segment are as follows:

   a. Mechatronic products business: electronic printers, hand labelers

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

2. Assets listed under Eliminations and corporate were ¥6,937 million at the fiscal year-end. The amount at the previous fiscal year-end was ¥7,173 million. These figures primarily consist of surplus operating capital (cash and short-term investment securities) and assets related to management divisions at the Company.

3. Depreciation and amortization and Capital expenditures for the fiscal year under review include the amount of Long-term prepaid expenses and depreciation and amortization of long-term prepaid expenses.

4. Changes in accounting policies

   The Company applies “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9, released on July 5, 2006) from the fiscal year under review. Due to this change, during the current fiscal year, operating expenses increased by ¥93 million in “Mechatronic products business” and by ¥9 million in “Supply products business” compared to the amount calculated by the previous method. Consequently, operating loss increased by ¥93 million in “Mechatronic products business” and operating income decreased by ¥9 million in “Supply products business.”

   For the previous fiscal year, following the revision of Corporation Tax Act, the Company and its domestic consolidated subsidiaries have changed the depreciation method for property, plant and equipment that was obtained on and after

April 1, 2007 to those based on the revised Corporation Tax Act for the previous fiscal year. Due to this change, during the previous fiscal year, operating expenses increased by ¥21 million in “Mechatronic products business” and by ¥37 million in “Supply products business” compared to the amount calculated by the previous method, and operating income decreased by the same amount as operating expenses increased.

5. Additional information

For the previous fiscal year, with regard to assets acquired on and before March 31, 2007, the Company and its domestic consolidated subsidiaries have included the value, which is depreciated evenly over five years of the difference between the amount corresponding to 5% of the acquisition price and the memorandum price, in depreciation, from the fiscal year following the year when 5% of the acquisition price is reached, in accordance with the former Corporation Tax Act. Consequently, during the previous fiscal year, operating expenses increased by ¥8 million in “Mechatronic products business” and by ¥27 million in “Supply products business” compared to the amount calculated by the previous method, and operating income decreased by the same amount as operating expenses increased.

b. Geographical segment information

Years ended March 31; Millions of yen	Japan	North America	Europe	Asia and Oceania	Total	Eliminations and corporate	Consolidated
2009							
Sales							
External customer sales	57,185	7,489	8,459	5,028	78,163	-	78,163
Intersegment sales	1,793	54	284	6,761	8,893	(8,893)	-
	58,978	7,544	8,744	11,790	87,057	(8,893)	78,163
Operating expenses	56,093	7,268	10,303	12,307	85,974	(8,540)	77,433
Operating income (loss)	2,885	275	(1,559)	(517)	1,083	(353)	730
Assets	69,818	6,998	6,237	29,255	112,309	(50,616)	61,692
2008							
Sales							
External customers	60,013	9,743	11,158	6,874	87,790	-	87,790
Intersegment sales	3,186	71	265	9,103	12,627	(12,627)	-
	63,199	9,815	11,424	15,978	100,418	(12,627)	87,790
Operating expenses	58,211	9,293	11,907	15,449	94,862	(12,476)	82,386
Operating income (loss)	4,987	521	(482)	528	5,555	(151)	5,404
Assets	66,701	7,399	10,540	31,555	116,197	(50,094)	66,103

(Notes)

1. Countries and 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
3. Assets in the year ended March 2009 and 2008 included no eliminations or assets classified as corporate items.
4. Changes in accounting policies

The Company applies “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9, released on July 5, 2006) from the fiscal year under review. Due to this change, during the current fiscal year, operating expenses of “Japan” increased by ¥66 million, “Europe” increased by ¥10 million and “Asia and Oceania” increased by ¥24 million. Consequently, operating income of “Japan” decreased by ¥66 million, operating loss of “Europe” increased by ¥10 million and operating loss of “Asia and Oceania” increased by ¥24 million.

For the previous fiscal year, following the revision of Corporation Tax Act, the Company and its domestic consolidated subsidiaries have changed the depreciation method for property, plant and equipment that was obtained on and after April 1, 2007 to those based on the revised Corporation Tax Act for the previous fiscal year. Due to this change, during the previous fiscal year, operating expenses of “Japan” increased by ¥59 million and operating income decreased by the same amount as operating expenses increased.

5. Additional information

For the previous fiscal year, with regard to assets acquired on and before March 31, 2007, the Company and its domestic consolidated subsidiaries have included the value, which is depreciated evenly over five years of the difference between the amount corresponding to 5% of the acquisition price and the memorandum price, in depreciation, from the fiscal year following the year when 5% of the acquisition price is reached, in accordance with the former Corporation Tax Act. Consequently, during the previous fiscal year, operating expenses of “Japan” increased by ¥35 million and operating income decreased by the same amount as operating expenses increased.

c. Overseas sales

Years ended March 31;	**2008**		**2009**	
Millions of yen	**Overseas sales**	**As % of net sales**	**Overseas sales**	**As % of net sales**
North America	9,743	11.1	7,489	9.6
Europe	11,158	12.7	8,459	10.8
Asia, others	6,874	7.8	5,028	6.4
	27,777	31.6	20,978	26.8
Consolidated sales	87,790		78,163	

(Notes)

1. Countries and 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., Canada
   (2) Europe: Germany, UK, France, Italy and etc.
   (3) Asia, others: Malaysia, Singapore, Thailand, China, Australia and 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

(1) Non-consolidated balance sheets

Millions of yen	March 31, 2008	March 31, 2009
Assets		
Current assets		
Cash and deposits	7,237	7,475
Notes receivable-trade	3,891	2,984
Accounts receivable-trade	11,269	9,315
Merchandise	164	–
Finished goods	3,104	–
Semi-finished goods	152	–
Merchandise and finished goods	–	3,200
Work in process	50	50
Raw materials	312	298
Prepaid expenses	419	343
Short-term loans receivable	761	2,864
Accounts receivable-other	761	1,154
Deferred tax assets	190	75
Other	269	95
Allowance for doubtful accounts	(11)	(24)
Total current assets	28,573	27,834
Noncurrent assets		
Property, plant and equipment		
Buildings	7,829	7,824
Accumulated depreciation	(3,833)	(4,090)
Buildings, net	3,996	3,733
Structures	312	309
Accumulated depreciation	(261)	(266)
Structures, net	51	42
Machinery and equipment	7,118	7,158
Accumulated depreciation	(4,765)	(4,745)
Machinery and equipment, net	2,352	2,412
Vehicles	30	30
Accumulated depreciation	(27)	(28)
Vehicles, net	2	2
Tools, furniture and fixtures	2,424	2,372
Accumulated depreciation	(1,922)	(1,932)
Tools, furniture and fixtures, net	502	440
Land	5,334	5,328
Construction in progress	14	462
Total property, plant and equipment	12,253	12,422
Intangible assets		
Software	954	746
Goodwill	17	8
Software in progress	61	51
Other	45	42
Total intangible assets	1,077	849

Millions of yen	March 31, 2008	March 31, 2009
Investments and other assets		
Investment securities	178	262
Stocks of subsidiaries and affiliates	19,794	8,929
Investments in capital	1	1
Investments in capital of subsidiaries and affiliates	1,365	1,365
Long-term loans receivable	–	295
Long-term loans receivable from employees	2	0
Long-term loans receivable from subsidiaries and affiliates	1,608	261
Claims provable in rehabilitation and other	29	74
Long-term prepaid expenses	55	46
Long-term accounts receivable-other	101	70
Deferred tax assets	494	4,909
Guarantee deposits	714	726
Other	416	819
Allowance for doubtful accounts	(47)	(94)
Total investments and other assets	24,716	17,666
Total noncurrent assets	38,048	30,937
Total assets	66,621	58,772
Liabilities		
Current liabilities		
Notes payable-trade	2,160	904
Accounts payable-trade	2,710	2,213
Short-term loans payable	5,000	3,000
Lease obligations	–	74
Accounts payable-other	9,665	9,858
Income taxes payable	671	110
Accrued consumption taxes	209	85
Deposits received	1,737	2,595
Provision for directors' bonuses	42	–
Provision for product warranties	24	15
Other	94	93
Total current liabilities	22,316	18,949
Noncurrent liabilities		
Long-term loans payable	–	2,000
Lease obligations	–	421
Provision for retirement benefits	708	823
Long-term accounts payable for directors' retirement benefits	245	245
Guarantee deposits received	202	49
Total noncurrent liabilities	1,156	3,540
Total liabilities	23,473	22,489

Millions of yen	March 31, 2008	March 31, 2009
Net assets		
Shareholders' equity		
Capital stock	6,331	6,331
Capital surplus		
Legal capital surplus	5,789	5,789
Other capital surplus	9	9
Total capital surpluses	5,799	5,799
Retained earnings		
Legal retained earnings	474	474
Other retained earnings		
Voluntary retained earnings	27,325	27,325
Retained earnings brought forward	6,107	(292)
Total earned surpluses	33,907	27,507
Treasury stock	(2,953)	(3,457)
Total shareholders' equity	43,084	36,180
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	5	8
Total valuation and translation adjustments	5	8
Subscription rights to shares	58	93
Total net assets	43,148	36,282
Total liabilities and net assets	66,621	58,772

(2) Non-consolidated statements of income

Millions of yen	Year ended March 31, 2008	Year ended March 31, 2009
Net sales		
Net sales of finished goods	52,858	49,039
Net sales of goods	7,919	7,056
Total net sales	60,778	56,096
Cost of sales		
Cost of finished goods sold		
Beginning finished goods	3,273	3,104
Cost of products manufactured	24,410	23,560
Purchase of finished goods	5,909	4,888
Total	33,593	31,553
Transfer to other account	246	219
Ending finished goods	3,104	2,911
Cost of finished goods sold	30,243	28,421
Cost of goods sold		
Beginning goods	318	164
Cost of purchased goods	5,951	5,458
Total	6,269	5,622
Ending goods	164	145
Cost of goods sold	6,105	5,477
Total cost of sales	36,348	33,898
Gross profit	24,429	22,197
Selling, general and administrative expenses		
Sales commission and promotion expenses	329	268
Freightage and packing expenses	988	928
Advertising expenses	379	351
Directors' compensations	364	387
Salaries and allowances	8,297	8,566
Retirement benefit expenses	721	658
Provision for directors' bonuses	46	–
Welfare expenses	1,303	1,394
Traveling and transportation expenses	664	629
Communication expenses	306	295
Depreciation	816	823
Rent expenses	377	437
Research and development expenses	1,734	1,925
Commissions	1,888	1,816
Other	1,912	1,900
Total selling, general and administrative expenses	20,130	20,384
Operating income	4,299	1,813

Millions of yen	Year ended March 31, 2008	Year ended March 31, 2009
Non-operating income		
Interest income	88	75
Dividends income	46	43
Commission fee	102	69
Rent income	30	84
Other	53	21
Total non-operating income	321	295
Non-operating expenses		
Interest expenses	61	67
Loss on valuation of investment securities	—	20
Loss on disposal of inventories	71	–
Foreign exchange losses	361	6
Sales discounts	19	18
Depreciation of assets for rent	–	52
Other	56	17
Total non-operating expenses	571	183
Ordinary income	4,049	1,925
Extraordinary income		
Gain on prior period adjustment	104	–
Gain on sales of noncurrent assets	37	14
Other extraordinary income	2	1
Total extraordinary income	144	16
Extraordinary loss		
Loss on sales of noncurrent assets	82	6
Loss on retirement of noncurrent assets	41	26
Impairment loss	4	2
Contribution for income tax for prior periods for employees on loan to overseas subsidiaries	40	–
Provision of allowance for doubtful accounts	22	–
Other extraordinary loss	5	1
Loss on valuation of stocks of subsidiaries and affiliates	–	10,864
Total extraordinary losses	196	10,901
Income (loss) before income taxes	3,997	(8,959)
Income taxes-current	1,654	732
Income taxes-deferred	(50)	(4,302)
Total income taxes	1,603	(3,570)
Net income (loss)	2,394	(5,389)

Cost of sales

As of March 31; Millions of yen		2008	%	2009	%
Cost of raw materials		20,640	84.8	20,155	85.5
Subcontracted processing expenses		80	0.3	61	0.3
Labor costs	*2	1,365	5.6	1,296	5.5
Expenses	*3	2,267	9.3	2,059	8.7
Total manufacturing overhead		24,354	100.0	23,571	100.0
Semifinished goods and work-in-process inventory, beginning of period		271		203	
Transfers to other accounts	*4	12		20	
Semifinished goods and work-in-process inventory, end of period		203		193	
Production costs for the period		24,410		23,560	

2008	2009
1. Method of accounting for costs	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.	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 ¥88 million in retirement benefit expenses	2. Includes ¥74 million in retirement benefit expenses
3. Includes ¥701 million in depreciation expenses	3. Includes ¥737 million in depreciation expenses
4. The breakdown of expenses allocated to other accounts is as follows.	4. The breakdown of expenses allocated to other accounts is as follows.
(Millions of yen)	(Millions of yen)
Selling, general and administrative expenses 3	Selling, general and administrative expenses 7
Tools, furniture and fixtures 8	Tools, furniture and fixtures 4
12	Accounts receivable-other 7
	Other 1
	20

(3) Non-consolidated statements of changes in net assets

Millions of yen	Year ended March 31, 2008	Year ended March 31, 2009
Shareholders' equity		
Capital stock		
Balance at the end of previous period	6,331	6,331
Changes of items during the period		
Total changes of items during the period	–	–
Balance at the end of current period	6,331	6,331
Capital surplus		
Legal capital surplus		
Balance at the end of previous period	5,789	5,789
Changes of items during the period		
Total changes of items during the period	–	–
Balance at the end of current period	5,789	5,789
Other capital surplus		
Balance at the end of previous period	9	9
Changes of items during the period		
Total changes of items during the period	–	–
Balance at the end of current period	9	9
Total capital surplus		
Balance at the end of previous period	5,799	5,799
Changes of items during the period		
Total changes of items during the period	–	–
Balance at the end of current period	5,799	5,799

Millions of yen	Year ended March 31, 2008	Year ended March 31, 2009
Retained earnings		
Legal retained earnings		
Balance at the end of previous period	474	474
Changes of items during the period		
Total changes of items during the period	–	–
Balance at the end of current period	474	474
Other retained earnings		
Voluntary retained earnings		
Balance at the end of previous period	27,325	27,325
Changes of items during the period		
Total changes of items during the period	–	–
Balance at the end of current period	27,325	27,325
Retained earnings brought forward		
Balance at the end of previous period	4,739	6,107
Changes of items during the period		
Dividends from surplus	(1,026)	(1,010)
Net income	2,394	(5,389)
Total changes of items during the period	1,367	(6,399)
Balance at the end of current period	6,107	(292)
Total retained earnings		
Balance at the end of previous period	32,539	33,907
Changes of items during the period		
Dividends from surplus	(1,026)	(1,010)
Net income	2,394	(5,389)
Total changes of items during the period	1,367	(6,399)
Balance at the end of current period	33,907	27,507

Millions of yen	Year ended March 31, 2008	Year ended March 31, 2009
Treasury stock		
Balance at the end of previous period	(2,059)	(2,953)
Changes of items during the period		
Purchase of treasury stock	(893)	(503)
Total changes of items during the period	(893)	(503)
Balance at the end of current period	(2,953)	(3,457)
Total shareholders' equity		
Balance at the end of previous period	42,610	43,084
Changes of items during the period		
Dividends from surplus	(1,026)	(1,010)
Net income	2,394	(5,389)
Purchase of treasury stock	(893)	(503)
Total changes of items during the period	474	(6,903)
Balance at the end of current period	43,084	36,180
Valuation and translation adjustments		
Valuation difference on available-for-sale securities		
Balance at the end of previous period	7	5
Changes of items during the period		
Net changes of items other than shareholders' equity	(2)	3
Total changes of items during the period	(2)	3
Balance at the end of current period	5	8
Subscription rights to shares		
Balance at the end of previous period	–	58
Changes of items during the period		
Net changes of items other than shareholders' equity	58	34
Total changes of items during the period	58	34
Balance at the end of current period	58	93
Total net assets		
Balance at the end of previous period	42,617	43,148
Changes of items during the period		
Dividends from surplus	(1,026)	(1,010)
Net income	2,394	(5,389)
Purchase of treasury stock	(893)	(503)
Net changes of items other than shareholders' equity	56	37
Total changes of items during the period	530	(6,865)
Balance at the end of current period	43,148	36,282