

# Financial Summary

## Fiscal Year Ended 31<sup>st</sup> March, 2010

Tokyo, 14<sup>th</sup> May 2010

### 1. Financial results

#### (1) Overview of financial results

##### ① Financial results for fiscal year ended 31<sup>st</sup> March, 2010

For the fiscal year ended 31<sup>st</sup> March, 2010, although signs of economic upturn were seen in Japan driven by a gradual upturn in the global economy, the real state of the economy proceeded in unclear conditions, as consumer spending lacked impetus within a persistently severe employment environment, and corporate facility investment continued at its lowest level partly due to the yen appreciation against the U.S. dollar.

Under these circumstances, the Group focused on delivering profits by implementing a radical reduction in production costs and expenditures including the restructuring and integration of production and sales bases for a drastic improvement of profit structure.

For sales of home use sewing machines, as a result of sales expansion efforts which implemented aggressive sales promotional measures including a new model launch and participation in exhibitions, unit sales totaled 1.74 million units, up 10 thousand units from the previous fiscal year. However, net sales decreased partly due to the effects of foreign currency exchange against a stronger Japanese yen and a shift of demand to low priced models within the deflationary economy trend.

Although domestic sales for the industrial equipment business which includes desk-top robots and electro-press machines faced a difficult struggle impacted by a move to gear-down corporate facility investment, sales in the Asia region progressed favorably, particularly in the last quarter, partly driven by economic recovery in the market. Despite gradual recovery of the die-casting business, incoming orders still remained at a low level.

As a result, net sales for the Janome Group totaled 35.746 billion yen, down 11.7% from the previous fiscal year.

Operating income was 1.341 billion yen, up 192.0% from the previous fiscal year, resulting from efforts to radically reduce production costs and expenditures. Ordinary income was 957 million yen and net income for this fiscal year reached 529 million yen.

Summary of operational results by segment is as follows:

- Home use sewing machines

In Japan, although the Company made efforts to stimulate demand through participation in exhibitions and through sales promotion for the release of new models, it was a difficult challenge in the face of consumers' increased sense of lifestyle security and their intentions to economize. As a result, sales in Japan were 220 thousand units (down 10 thousand units from the previous fiscal year), with net sales of 7.246 billion yen (down 305 million yen from the

previous fiscal year).

Overseas, for the first quarter of the fiscal year, sales fought hard to contend with a delayed recovery from the global recession and inventory adjustments by agents in response to drastic sales declines in local markets. From the second quarter of the fiscal year onward, the global economy shifted to a basis for recovery, although this was moderate and mainly in the emerging market. The Company implemented aggressive market cultivation and sales promotional plans, as well as a release of new models of affordable computerized sewing machines. As a result, unit sales rose to 1.52 million units (up 20 thousand units from the previous fiscal year). Net sales were 20.233 billion yen (down 2.551 billion yen from the previous fiscal year) due to the effect of changes in exchange rates and a decline in average sales price.

As a result of the restructuring and integration of sales bases including subsidiaries toward improvement of sales efficiency, as well as a radical reduction in production costs and expenditures, global sales for the Group in sewing machines totaled 1.74 million units (up 10 thousand units from the previous fiscal year), with net sales of 27.479 billion yen (down 2.856 billion yen from the previous fiscal year). However, operating income climbed to 1.478 billion yen (up 910 million yen from the previous fiscal year).

- Industrial equipment

Amidst a worldwide decline in facility investment demand, the Company endeavored to strengthen its seamless network with customers so as to offer speedier and higher quality service support. Furthermore, the Company launched new merchandise and focused on enhancing the operating power of its sales personnel and account managers for customer development.

In the Asia region, mainly mainland China, Korea and Thailand, the market for hard disc drives, semi conductors and automobile-related parts was the first to head toward recovery. In the domestic market, however, the upswing did not match expectations because of the continued gearing-down of corporate facility investment. The die-casting business in particular was significantly affected by a decrease in orders from the domestic automotive industry.

As a result, net sales for industrial equipment totaled 3.047 billion yen (down 1.109 billion yen from the previous fiscal year), with an operating loss of 116 million yen (compared with an operating loss of 41 million yen for the previous fiscal year).

- EDP and other services

Unit sales for IT software/electronic data processing services, installation/maintenance of 24-Hour Clean Bath systems in addition to income from real estate, totaled 3.526 billion yen (down 559 million yen from the previous fiscal year). However, operating income increased to 56 million yen (up 48 million yen from the previous fiscal year) due to a radical reduction in expenditures.

- 24-Hour Clean Bath systems

Affected by the delayed recovery of demand from consumer spending in the domestic market

(business activity is limited in the domestic market), net sales of 24-Hour Clean Bath systems totaled 1.692 billion yen (down 215 million yen from the previous fiscal year), with an operating income of 78 million yen (improved from an operating loss of 95 million yen for the previous fiscal year).

## ② Outlook for next fiscal year (1<sup>st</sup> April 2010 to 31<sup>st</sup> March 2011)

Although the global economy has turned moderately to recovery, the outlook for the business environment continues to be unclear, as there is concern that financial uncertainty originating from the Greek financial crisis might recur not only in euro zone, but also all over the world.

In response, the Group aims to recover and expand sales toward profit growth, while maintaining and strengthening a structure for profitability through the implementation of its profitability improvement plan for this fiscal year.

For the fiscal year ending 31 March 2011, it is estimated that net sales on a consolidated basis will reach 37 billion yen (up 3.5% compared with the previous fiscal year), with an operating income of 1.8 billion yen (up 34.2% compared with the previous fiscal year), an ordinary income of 1.2 billion yen (up 25.4% compared with the previous fiscal year) and a net income of 800 million yen (up 51.2% compared with the previous fiscal year).

## (2) Overview of financial position

### ① Assets, liabilities and net assets

Total assets on a consolidated basis as of 31 March 2010 were 50.512 billion yen (down 484 million yen compared with the previous fiscal year) due to a decrease in inventory assets, buildings and structures as well as land, while cash and deposits increased.

Total liabilities decreased to 36.863 billion yen (down 1.392 billion yen compared with the previous fiscal year) due to a decrease in interest-bearing debts, while notes and account payable increased.

Total net assets (including minority interest shares) increased to 13.649 billion yen (up 908 million yen compared with the previous fiscal year).

### ② Overview of cash flow position

Net cash generated by operating activities was 3.543 billion yen (an increase of 2.999 billion yen compared with the previous fiscal year) after a black number in the net income before income taxes and minority interest, and a decrease in inventory assets.

Net cash generated by investing activities was 153 million yen (up 2.215 billion yen compared with the previous fiscal year) due to the sale of tangible fixed assets.

Net cash used for financing activities was minus 1.692 billion yen (down 3.901 billion yen compared with the previous fiscal year) due to the repayment of long-term debts.

As a result, cash and cash equivalents on a consolidated basis as of 31<sup>st</sup> March 2010 increased by 2.002 billion yen from the previous fiscal year ended 31<sup>st</sup> March 2009, amounting to 6.869

billion yen.

Trends in cash flow indices of the Group are as follows:

	as of 31 March 2007	as of 31 March 2008	as of 31 March 2009	as of 31 March 2010
Shareholders equity ratio	36.4 %	32.1 %	23.9 %	25.9 %
Equity ratio based on market value	55.7 %	32.1 %	14.9 %	26.7 %
Interest-bearing debts to cash flow ratio	11.6 years	14.5 years	42.2 years	5.9 years
Interest coverage ratio	3.9 times	3.1 times	1.1 times	7.1 times

Shareholders equity ratio:

Shareholders equity / Total assets

Equity ratio based on market value:

Market value of shareholders equity / Total assets

Interest-bearing debts to cash flow ratio:

Interest-bearing debts / Cash flow  
(for the past year)

Interest coverage ratio:

Cash flow / Interest paid

- \* 1. All ratios are calculated based on the consolidated financial statement.
- \* 2. Market value of shareholders equity is calculated from the closing stock price at the end of fiscal year multiplied by the number of shares issued and outstanding at the end of fiscal year.
- \* 3. Cash flow is the amount of net cash generated by operating activities stated on the consolidated statements of cash flows. Interest-bearing debts are all those stated on the consolidated balance sheet for which interest is paid. Interest paid is the amount stated on the consolidated statement of cash flow.

### (3) Basic policy on the distribution of profits and payment of dividends for this fiscal term / next fiscal term

It is the policy of the Group to distribute profits to its shareholders, while giving comprehensive consideration to such factors as business results of each fiscal term, payout ratio of dividends, and internal funds to be reserved for future business development plans.

As for year-end dividends for this fiscal year ended 31<sup>st</sup> March 2010, the Group has not been able to accrue an internal reserve for the distribution of profits, and as such will regrettably suspend distribution. For the next fiscal year ending 31<sup>st</sup> March 2011, we do not expect to be able to pay dividends.

### (4) Risk factors to Janome Group business

The Group recognizes that major risk factors described below might effect Group financial results, stock price, as well as its financial position. The Group makes every effort to manage them as well as minimize any impact from them.

#### ① Effect of exchange rate fluctuation

As a result of the Group sewing machine and industrial equipment businesses developing pro-active sales in the overseas market, the ratio of overseas sales to consolidated sales has been around 60 percent. Although the Group intends to hedge any exchange losses incurred by foreign currency transactions through foreign exchange forward reservation systems and

netting settlements between Headquarters and subsidiary companies, the majority of overseas sales revenue is transacted on a foreign currency basis rather than on a yen basis and it is possible, therefore, that Group performance could be affected by fluctuation in currency exchange rates.

#### ② Rises in production costs

With production facilities based in Japan, Taiwan and Thailand, the Group implements efficient production in accordance with demand trends in the world market. By procuring components from a global point of view, the Group endeavors to stabilize procurements and competitively reduce production costs and the Production Control Division manages and controls overall material procurement and production procedures for domestic and overseas production companies and factories. While the Group as a whole consistently makes every effort to minimize the impact on production costs, it is possible that Group performance could be affected by rises in raw materials such as steel, aluminum, copper and ABS resin.

#### ③ Country risk

Throughout the numerous countries where the Group has production and sales activities, the Group has been able to avoid being affected by regime, political, economic and regulatory changes and war and terrorism until now. However, should such events occur making it difficult to continue business activities, it is possible that Group performance could be affected.

#### ④ Intra-Group quality management and control

With respect to Group products, the Group has developed its production know-how over many years. In addition, the Group carries out quality system assessments and quality audits on sewing machines, industrial equipment and other products produced by the Company and its domestic and overseas network of associated companies. The Group has also instituted a PL (Product Liability) committee that holds monthly meetings regarding product safety and promotes quality assurance activities through the entire group via the Quality Assurance Department. However, should a large-scale quality failure occur, it is possible that Group performance could be affected through the incurrence of recall costs and lowering of the brand image.

#### ⑤ Compliance and internal control

The Group has established a management system for internal control under which operations will be carried out in strict compliance with related laws and regulations to uphold fair business practices and financial information reliability. However, should a situation occur wherein compliance with rules and regulations cannot be achieved, it is possible that Group performance could be affected.

#### ⑥ Market conditions

Within the process of business operations, competition with industry competitors is unavoidable. To that end, the Group is constantly striving to improve product and service quality through fully integrated development, production and sales. However, in the case of a drastic change in market conditions including intensified competition, it is possible that

Group performance could be affected.

#### ⑦ Management of personal information

The Group formulated a privacy policy and personal information protection guidelines, and the Company established an inter-company management system to fulfill the obligations of the Japanese Personal Information Protection Law. However, should a case arise wherein customer information including personal information is leaked, it is possible that not only Group trust but also Group performance could be affected.

#### ⑧ Fluctuation of interest rate

Interest-bearing debts in the Group might be affected by an interest rate fluctuation. In order to reduce the substantial effects of interest rate exposure, the Group manages to shift the borrowings from short-term loan to long-term loan. However, it is possible that Group performance could be affected by an increase in interest-bearing amounts due to a raise in interest rates.

#### ⑨ Impairment of fixed assets

With respect to tangible and intangible fixed assets, investment and other assets that the Group holds, should a case arise wherein impairment loss procedures are conducted, it is possible that Group performance and financial condition could be affected.

#### ⑩ Deferred income tax assets

The Group includes an appropriate amount of deferred income tax assets in the financial statements. However, should a forwarded loss account not be eliminated as projected due to a decrease in estimated taxable income resulting from a future change in performance, it is possible that Group performance could be affected by a reversal of part of its deferred income tax assets to income tax adjustment.

#### ⑪ Employee retirement benefit costs and obligations

The Group calculates the amount of employee retirement benefit costs and obligations appropriately based on assumptions used in the relevant actuarial calculations. However, in the case of a drastic change in those assumptions, it is possible that Group performance and financial condition could be affected by an increase in employee retirement benefit costs and obligations.

#### ⑫ Financial covenants

With respect to the Company's borrowings, financial covenants are established for loan agreements between the Company and financial institutions. When there is any breach of financial covenants by the Company, a termination of the relevant lending term benefits may be required.

#### ⑬ Business re-organization

The Company may conduct business re-organization including withdrawal from a non-profit business and the liquidation of associated companies. The relevant business re-organization could impact on the Group performance and financial condition.

## 2. Description of the Janome Group

Principal operations of the Company as well as its subsidiaries are focused primarily on the home use sewing machine related business, followed by the industrial equipment business and the 24-Hour Clean Bath and EDP businesses.

Note that J.T.S. Co., Ltd. was integrated into Janome Credia Co., Ltd., and Jamac, Inc. into Janome America, Inc., respectively as of 1<sup>st</sup> April 2009, and Elna Inc. into Janome America, Inc., as of 1<sup>st</sup> January 2010.

Janome Kosan Co., Ltd. and Hosei Sewing Machine Mfg. Co., Ltd. were liquidated as of 30<sup>th</sup> June 2009 and Topia Industrial Co., Ltd. was liquidated as of 30<sup>th</sup> September, 2009.

Operations by segment are as follows:

- Home use sewing machines

The Company as well as Janome Taiwan Co., Ltd., Janome (Thailand) Co., Ltd. and other manufacturing companies develop and produce primarily home use sewing machines, as well as embroidery machines and sewing-related product lines, with sales and marketing handled by the Company as well as Janome America, Inc., Janome UK Ltd., Janome Australia Pty. Ltd., Elna International Corp. SA and other sales companies.

- Industrial equipment

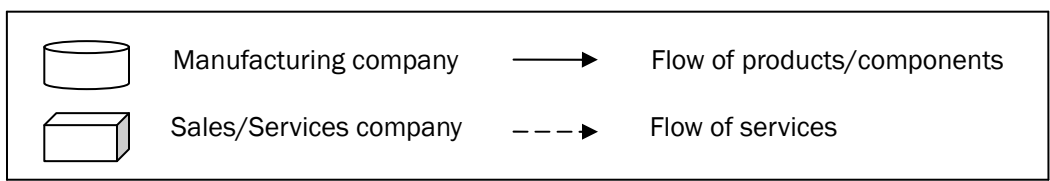
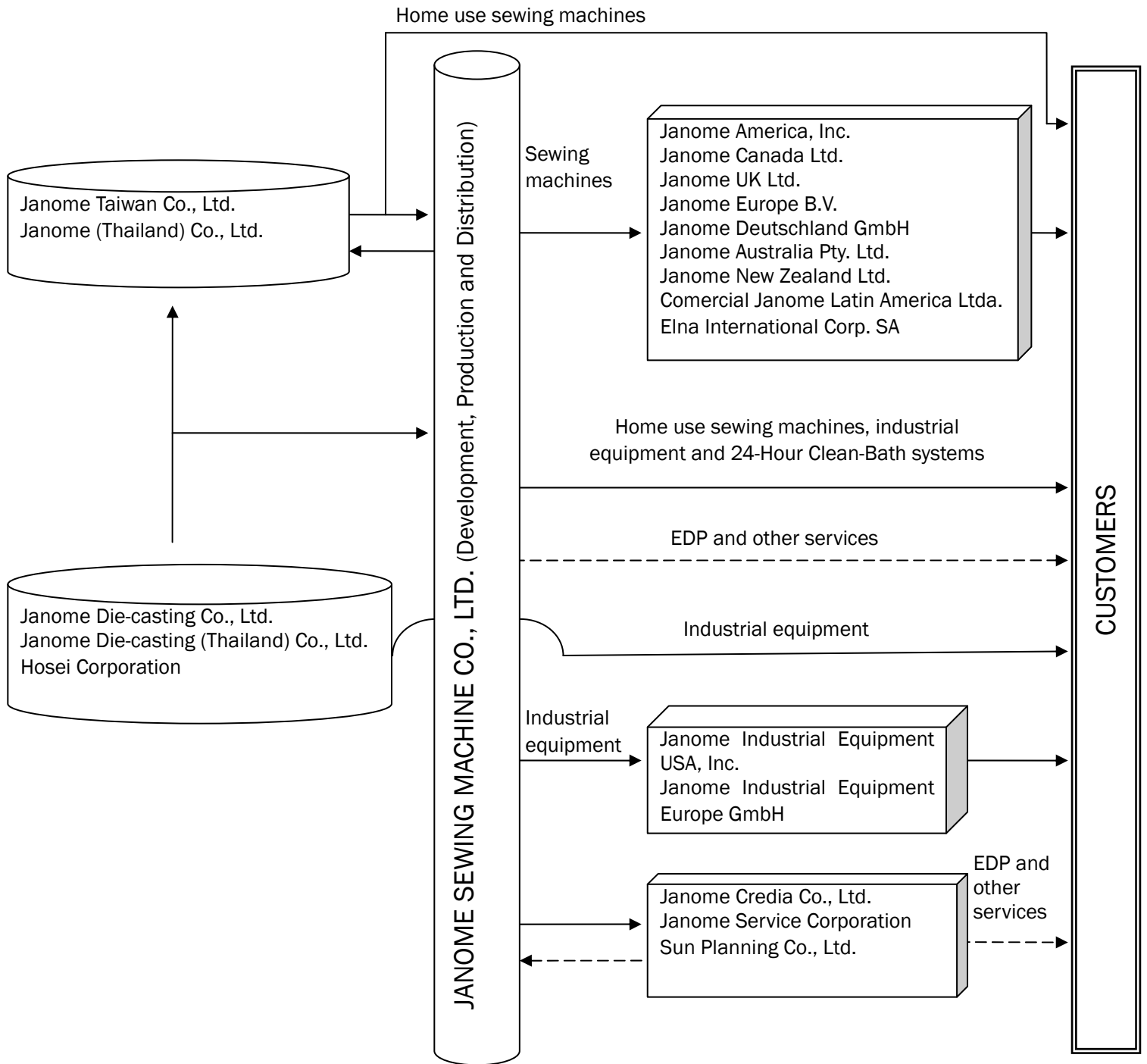
The Company develops and produces industrial equipment including desk-top robots and electro-press machines, with sales and marketing handled by the Company and a limited number of overseas sales subsidiaries. Janome Die-casting Co., Ltd., Janome Die-casting (Thailand) Co., Ltd. and Hosei Corporation manufacture and distribute die-cast products.

- 24-Hour Clean Bath systems, EDP and other services

The Company develops, produces and distributes 24-Hour Clean Bath systems for home and business use, and also operates a real estate business. Janome Credia Co., Ltd. is involved in IT software/electronic data processing services, and Janome Service Corporation in installation/maintenance of 24-Hour Clean Bath systems.

[Overview of transactions of consolidated subsidiaries]

as of 31 March, 2010



### 3. Management policy

#### (1) Janome basic management policy

In order to contribute to the improvement of the social and cultural lives of people by providing consistently high quality and price-worthy products and services, the Group endeavors to implement a fair and streamlined management, while keeping a healthy and friendly relationship with each of its stakeholders in full compliance with all rules and regulations.

In order to strengthen corporate infrastructure to respond flexibly to changes in the business environment, the Group continues to streamline management, improve production efficiency and reinforce its research and development infrastructure as well as its sales/customer service infrastructure.

#### (2) Issues to be addressed

Within the exceedingly severe business environment with a global recession triggered by the financial crisis, fierce price competition under the deflationary economic trend, a move of the gearing-down in corporate facility investment and continued yen appreciation in the currency exchange market, the Group formulated an action plan for improving profitability in order to drastically improve management practices and to strengthen revenue base. As a result of the implementation of each measure toward radical reduction in production costs and expenditures, slim management including restructuring and integration of the associated companies, and a lower cost operation system, the Group performed almost as projected profit-wise and returned to the black in the final stage profit for this fiscal year, for the first time in three years.

The global economy is moderately moving toward recovery, mainly in emerging countries such as BRICs, and signs of economic upturn are starting to be seen even in the United States where there was concern about the protracted downturn.

Under such market conditions, the Group will address current issues laid-out below.

##### ① Sales recovery and expansion toward profit growth

- Home use sewing machines

The Group aims to sell 2 million units in the next fiscal year, in order to enhance the No.1 position in sewing machine manufacturers.

In Japan, while sustaining the merit of a door-to-door sales system that is available to demonstrate merchandise through direct communications with consumers, the Group is reviewing the allocation of direct sales branch shops appropriately and building efficient sales infrastructure. At the same time, as it responds to diversification in the sales business model, the Group strengthens sales through distributors as well as owners' shops.

Overseas, the Group strives to recover and expand sales in the United States, where the largest

sewing machine markets are and signs of recovery from the bottom-stricken economy can finally be seen, and it aims especially for a 30 percent acquisition of the market share for professional dealer sales.

In order to maintain and expand sales in existing markets, the Group stresses sales strengthening in emerging markets such as Central America and Asia, where further expansion is expected.

- Industrial equipment

Enriching both domestic and overseas sales/technical service bases, and expanding sales in the Asia market, in particular, India and mainland China known as the “Factory of the world”, the Group aims to establish a steady position in the desk-top robot/ electro-press machine industry.

In the die-casting business, the Group promotes customer development activities even in other industry fields in order to enlarge the current sales territory wherein incoming orders are inclined to the automotive industry. It is also proactively introducing the brand new Janome Plaster Mold Casting Method II aiming to receive lump orders from prototype manufacturing through small lot production services. The Group is increasing awareness of the highly value-added Janome Plaster Mold Casting Method II for which the quality precision, smoothness and thinness attained at the prototype manufacturing stage is of the same high quality as the small lot production and with an exceedingly shortened lead time realized.

## ② Improvement of profit ratio by promoting management efficiency

While maintaining and strengthening the profit structure as well as the lower cost operation systems, the Group pursues further improvement of revenue infrastructure by expanding sales volume. As a goal, the Group aims for a 10 percent operating income margin and is quickly developing a way toward achievement of the targeted figure.

## ③ Strengthening and improvement of financial position

Although the financial position is improving as a result of decreases in inventory assets and interest-bearing debts, the Group still holds a huge amount of accumulated losses. The Group strives to eliminate the accumulated losses in a short period by expanding profits and to improve cash flow positions for the strengthening and improvement of its financial position.