

# **TSUZUKI DENKI**

## **ANNUAL REPORT 2010**

Year ended March 31, 2010

## TO OUR SHAREHOLDERS

It is my pleasure to have this opportunity to express our gratitude to all of our shareholders for your understanding and support.

I became president and representative director of Tsuzuki Denki Co., Ltd. on April 1, 2010. In this position, I will be devoting all of my energies to achieving future growth.

Tsuzuki Denki Co., Ltd. is pleased to present the 70th term (from April 1, 2009 to March 31, 2010) business report to you.

With “staying close to customers” as their slogan, all employees of Tsuzuki Denki and its consolidated subsidiaries (the “Group”) made exhaustive efforts to improve the Group’s performance during the term under review. Despite these efforts, our performance remained extremely poor, influenced by factors such as capital investment and production controls and production-inventory controls by customers.

As a result, we regret to report that both sales and profit of the Group declined from the year-ago level during the term under review. The Group posted net sales of ¥86,386.31 million, down 13.2% from the previous year, operating income of ¥748.15 million, down 68.8%, ordinary income of ¥896.67 million, down 66.0%, and net income of ¥656.13 million, down 19.3%.

We have decided to pay a year-end dividend of ¥4 per share for the term (annual dividend of ¥8 including an interim dividend).

Bearing these results in mind, the Group will accelerate its structural reforms and enhance its earnings capacity for better performance to achieve a shift to sustainable growth, while enhancing its earnings capacity for better performance.

At the same time, we will always take into consideration the need to continue to try to be innovative in our technologies, to contribute to the networked society and to supply productive services.

We greatly appreciate your ongoing support and encouragement.

The Group aims to grow with its customers as their “most trusted partner.”

### (1) Business Review and Results

Notwithstanding the bottoming out of the recession that accompanied the global economic downturn, the Japanese economy during the term under review continued to struggle with considerable uncertainty. This reflected factors such as intensified international competition attributable to accelerated globalization and concerns about an appreciation of the yen resulting from financial system instability in the Middle East and Europe. These situations had a major impact on the willingness of customers to make capital investments.

In the IT sector, in which the Group operates, competition intensified among domestic solutions providers and global companies. In the meantime, business conditions were exposed to waves of change, as demonstrated by the decline in demand following corporate cutbacks in capital investment and other factors. In these circumstances, we

must quickly identify global trends and propose a new business model to our customers.

In the electronic devices sector, signs of recovery began to emerge for some of our products. However, production controls and production-inventory controls by customers continued, with the result that we could not achieve a full recovery in this sector.

Responding to this challenging environment, all Group employees made exhaustive efforts to meet customer needs under the slogan of “staying close to customers.” Nevertheless, our performance remained extremely poor, the result of factors that included lower capital investment, production and inventory adjustments by customers, and a lack of product appeal in the second-tier market.

### Information Network Systems

In the network solutions segment, our services focused on IP telephony and mobile terminals continued to perform strongly. Business negotiations for network infrastructure development with our existing customers in fields including precision machinery, chemicals, pharmaceuticals, engineering, finance, life and nonlife insurance, railroads, electric power and public administration, also continued to advance favorably. In the meantime, our business targeting the automotive industry continued to face extremely severe conditions, as customers reduced capital investment in response to production and sales cutbacks in North America and Europe.

We will focus our future initiatives on the growth area of Unified Communication\* and operating services, to develop more profitable businesses.

In system integration services, we have provided solutions for customers especially in the distribution, food, and medical and healthcare industries. Through proposals for the building of IT infrastructure, we remained focused on developing operations for customers such as manufacturers and local authorities. We sought to differentiate ourselves from competitors, too, by strengthening solutions for second-tier companies, in addition to developing unique solutions in areas such as cinema, market and real estate systems. Nonetheless, we confronted difficult conditions as a result of reduced spending on IT across these markets.

As a result, sales in the information network systems segment were ¥65,756.73 million, down 10.0% from the previous year, while operating income decreased 57.1% to ¥951.02 million.

Going forward, we will expand our operations in this segment by broadening the scope of our IT infrastructure control services (operational design/agent services and life cycle management) and by stepping up our responses to demands for cloud computing and other network services, and for our solutions for second-tier companies.

\* Unified Communication

A next-generation communication style in which voice, e-mail, images, and faxes are organically integrated.

## Electronic Devices

In the semiconductor sector, signs of a business recovery finally began to appear for industrial instruments in the second half of the term under review. Results also turned upward for LSIs used for automobiles and factory automation devices following the completion of inventory and production adjustments for them. However, sales declined substantially for the semiconductor sector, significantly influenced by production and inventory adjustments customers made to cope with market conditions that deteriorated in the first half of the term under review. In the meantime, results rose for power devices for electric power supply and sensors for air-conditioners due to exports to China, which recovered in the second half of the term. The rises, however, fell short of covering declines posted in the first half. Among electronic devices, switches, volumes and relays for digital cameras and telecommunications equipment performed steadily. However, headphone switches suffered declines as a result of production adjustments by customers.

In the electronics sector, 3.5-inch HDDs for corporations continued to perform poorly amid the adverse effects of capital investment controls. Sales of 3.5-inch HDDs manufactured overseas also declined sharply owing to difficulties encountered in securing volumes, despite strong demand observed for home audio and visual appliances and PC peripherals.

As a result, sales in this segment were ¥18,289.89 million, down 23.4% from the previous year, and operating loss was ¥243.30 million, compared to operating income of ¥130.63 million in the previous year.

## Others

The environment-related sector faced an uphill battle under severe market conditions as the maturation of the air-conditioning industry caused new demand to fall sharply and made acquisition of renewal orders a factor that determines performance. Device sales and maintenance services performed strongly under these conditions. However, orders for construction projects remained weak. In the new deodorization business, we won orders for large plants. However, these orders failed to offset the weak demand from construction projects. Consequently, both sales and profits in the segment fell substantially below target.

High-added-value measurement and control devices also produced favorable results as we focused on negotiations to win inspection and maintenance service orders. However, the results were not sufficient to offset a decline in orders. As a result, sales and profits in the sector were slightly below target.

In the temporary staffing services sector, we achieved both our sales and profit targets by working to maintain employment for temporary staff members and improving working hours at our client companies.

As a result, sales for the others business segment were ¥2,339.68 million, down 11.4% from the previous year, and operating income declined 35.1% to ¥23.53 million.

## (2) Key Issues to be Addressed

The scope of application of IT continues to expand as IT permeates every aspect of the world. People's expectations of business reforms through IT solutions are also increasing.

In these circumstances, the Group is convinced that it can contribute to a comfortable and safe network society as the "most trusted partner of customers" by developing a better service model and consistently developing technological innovations. We will be making a sustained effort based on this conviction.

### Exhaustive Actions for "Staying Close to Customers"

We will work diligently each day to offer timely solutions and services that outperform customer expectations. In doing this, we will take the perspective of our customers and consider carefully what is important to them.

### Structural Reforms

Under the waves of a paradigm shift from IT ownership to IT use, we seek to expand our business domains into cloud services, to respond to radical changes taking place in the market and to propose optimal solutions from customer perspectives.

We will flexibly combine our original templates (materials) incorporating customer requests to offer solutions tailored to operations specific to individual customers.

Moreover, we will set up a "Structural Reform Promotion Office" in the term ending March 2011. The Office will review all systems and functions for eliminating waste completely and streamlining management further.

### Increasing Our Brand Power

We will focus on fostering "human resources," our greatest asset. Specifically, we seek to train engineers with cutting-edge skills and personnel able to make proposals by improving our systems for assisting in the acquisition of national and vendor qualifications.

We will control all risks associated with our business activities through initiatives mainly taken by the "Risk and Compliance Promotion Committee" for ensuring compliance with corporate ethics and laws.

To protect important information, we will comply with the Act on the Protection of Personal Information, as well as other relevant laws and regulations. We will carefully protect and manage all information relating to our business activities, with the "Tsuzuki Information Security System (TISS) Committee" at the center of our efforts.

We appreciate the continued support of all our shareholders.



Hajime Ando  
President and Representative Director

**CONSOLIDATED BALANCE SHEETS**

As of March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash at hand and in banks .....	¥14,971	¥14,551	\$160,909
Trade receivables:			
Accounts and notes .....	22,748	23,001	244,496
Allowance for doubtful accounts .....	(40)	(43)	(429)
Net trade receivables .....	22,708	22,958	244,067
Inventories .....	5,084	5,651	54,643
Deferred tax assets .....	1,125	1,124	12,091
Other current assets .....	770	1,034	8,276
<b>Total current assets</b> .....	<b>44,734</b>	<b>45,319</b>	<b>480,803</b>
<b>Property, plant and equipment:</b>			
Land .....	2,346	2,380	25,214
Building and structures .....	947	967	10,178
Lease assets .....	527	508	5,664
Construction in progress .....	627	40	6,739
Others .....	145	125	1,558
<b>Total property, plant and equipment</b> .....	<b>4,599</b>	<b>4,023</b>	<b>49,430</b>
<b>Intangible assets:</b>			
Goodwill .....	50	71	537
Lease assets .....	502	182	5,395
Others .....	390	338	4,191
<b>Total intangible assets</b> .....	<b>943</b>	<b>592</b>	<b>10,135</b>
<b>Investments and other assets:</b>			
Investments in securities .....	5,840	4,820	62,768
Long-term loans .....	148	149	1,590
Long-term time deposits .....	4,200	5,100	45,141
Deferred tax assets .....	2,969	2,737	31,911
Other .....	1,767	1,950	18,991
Allowance for doubtful accounts .....	(241)	(389)	(2,590)
<b>Total investments and other assets</b> .....	<b>14,684</b>	<b>14,369</b>	<b>157,824</b>
<b>Total assets</b> .....	<b>¥64,961</b>	<b>¥64,305</b>	<b>\$698,205</b>

Notes: (1) The U.S. dollar amounts represent translation of Japanese yen at the rate of ¥93.04=\$1.00 on March 31, 2010.

(2) Certain reclassifications of previously reported amounts have been made to conform with the current presentation.

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities:</b>			
Short-term bank loans.....	¥ 6,323	¥ 6,229	\$ 67,960
Current portion of long-term debt .....	745	970	8,007
Trade payables .....	14,910	13,782	160,253
Accrued employees' bonuses .....	2,055	2,113	22,087
Lease obligations .....	322	184	3,460
Allowance for loss on orders .....	35	34	376
Income taxes payable .....	136	885	1,461
Other current liabilities.....	2,815	2,898	30,255
<b>Total current liabilities .....</b>	<b>27,344</b>	<b>27,098</b>	<b>293,895</b>
<b>Long-term liabilities:</b>			
Long-term debt .....	1,545	2,290	16,605
Lease obligations .....	769	542	8,265
Deferred tax liabilities .....	1	1	10
Accrued retirement benefits .....	4,928	4,229	52,966
Provision for directors' retirement benefits .....	314	355	3,374
Negative goodwill .....	104	139	1,117
Other long-term liabilities .....	5	5	53
<b>Total long-term liabilities .....</b>	<b>7,668</b>	<b>7,563</b>	<b>82,416</b>
<b>Net assets:</b>			
<b>Shareholders' equity:</b>			
Common stock: par value ¥50			
Authorized: 98,920,000 shares			
Issued: 25,387,802 shares.....	9,812	9,812	105,460
Additional paid-in capital .....	3,476	3,476	37,360
Retained earnings.....	11,243	10,763	120,840
Treasury stock.....	(1,121)	(1,009)	(12,048)
<b>Total shareholders' equity.....</b>	<b>23,410</b>	<b>23,043</b>	<b>251,612</b>
<b>Valuation and translation adjustments:</b>			
Net unrealized holding gains on other securities .....	102	130	1,096
Minority interests in consolidated subsidiaries .....	6,434	6,469	69,153
<b>Total net assets .....</b>	<b>29,948</b>	<b>29,643</b>	<b>321,883</b>
<b>Total liabilities and shareholders' equity .....</b>	<b>¥64,961</b>	<b>¥64,305</b>	<b>\$698,205</b>

**CONSOLIDATED STATEMENTS OF OPERATIONS**

For the years ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
<b>Net sales</b> .....	<b>¥86,386</b>	¥99,549	<b>\$ 928,482</b>
Cost of sales .....	<b>71,078</b>	82,193	<b>763,950</b>
Gross profit.....	<b>15,308</b>	17,356	<b>164,531</b>
Selling, general and administrative expenses.....	<b>14,560</b>	14,954	<b>156,491</b>
Operating income .....	<b>748</b>	2,401	<b>8,039</b>
<b>Other income (expenses):</b>			
Interest and dividend income .....	<b>132</b>	178	<b>1,418</b>
Interest expenses .....	<b>(150)</b>	(175)	<b>(1,612)</b>
Write-down loss on investment securities .....	<b>(5)</b>	(263)	<b>(53)</b>
Other, net .....	<b>(219)</b>	(223)	<b>(2,353)</b>
Income before income taxes and minority interests.....	<b>940</b>	1,918	<b>10,103</b>
<b>Income taxes</b> .....	<b>531</b>	1,152	<b>5,707</b>
Deferred income taxes.....	<b>(177)</b>	101	<b>(1,902)</b>
Income before minority interests .....	<b>724</b>	866	<b>7,781</b>
Minority interests .....	<b>(68)</b>	54	<b>(730)</b>
<b>Net income</b> .....	<b>¥ 656</b>	¥ 812	<b>\$ 7,050</b>
		Yen	U.S. Dollars
<b>Per share:</b>			
Net income .....	<b>¥ 29.87</b>	¥ 36.40	<b>\$ 0.32</b>

Note: The U.S. dollar amounts represent translation of Japanese yen at the rate of ¥93.04=\$1.00 on March 31, 2010.

**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS**

For the year ended March 31, 2010

(Millions of Yen)

	Shareholders' equity					Valuation and translation adjustments	Minority interests in consolidated subsidiaries	Total net assets
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains on other securities		
Balance as of March 31, 2009	¥ 9,812	¥ 3,476	¥ 10,763	¥ (1,009)	¥ 23,043	¥ 130	¥ 6,469	¥ 29,643
Change during the consolidated fiscal year								
Cash dividends			(176)		(176)			(176)
Net income			656		656			656
Purchase of treasury stock				(112)	(112)			(112)
Disposal of treasury stock		(0)		0	0			0
Changes (net amount) of items other than shareholders' equity during the consolidated fiscal period						(27)	(34)	(62)
Total changes during the consolidated fiscal period		(0)	479	(112)	366	(27)	(34)	304
<b>Balance as of March 31, 2010</b>	<b>¥ 9,812</b>	<b>¥ 3,476</b>	<b>¥ 11,243</b>	<b>¥ (1,121)</b>	<b>¥ 23,410</b>	<b>¥ 102</b>	<b>¥ 6,434</b>	<b>¥ 29,948</b>

(Thousands of U.S. Dollars)

	Shareholders' equity					Valuation and translation adjustments	Minority interests in consolidated subsidiaries	Total net assets
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total Shareholders' equity	Net unrealized holding gains on other securities		
Balance as of March 31, 2009	\$105,460	\$37,360	\$115,681	\$(10,844)	\$247,667	\$1,397	\$69,529	\$318,604
Change during the consolidated fiscal year								
Cash dividends			(1,891)		(1,891)			(1,891)
Net income			7,050		7,050			7,050
Purchase of treasury stock				(1,203)	(1,203)			(1,203)
Disposal of treasury stock		(0)		0	0			0
Changes (net amount) of items other than shareholders' equity during the consolidated fiscal period						(290)	(365)	(666)
Total changes during the consolidated fiscal period		(0)	5,148	(1,203)	3,933	(290)	(365)	3,267
<b>Balance as of March 31, 2010</b>	<b>\$105,460</b>	<b>\$37,360</b>	<b>\$120,840</b>	<b>\$(12,048)</b>	<b>\$251,612</b>	<b>\$1,096</b>	<b>\$69,153</b>	<b>\$321,883</b>

Note: The U.S. dollar amounts represent translation of Japanese yen at the rate of ¥93.04=\$1.00 on March 31, 2010.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the years ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
<b>I. Cash flows from operating activities:</b>			
Income before income taxes and minority interests .....	¥ 940	¥ 1,918	\$ 10,103
Depreciation and amortization .....	448	286	4,815
Decrease (increase) in allowances .....	454	775	4,879
Impairment loss .....	34	—	365
Decrease in trade receivables .....	270	4,233	2,901
Decrease in inventories .....	544	997	5,846
Decrease (increase) in trade payables .....	1,134	(4,562)	12,188
Other .....	(158)	(101)	(1,698)
<b>Sub-total</b> .....	<b>3,669</b>	<b>3,549</b>	<b>39,434</b>
Interest and dividends received .....	133	188	1,429
Interest paid .....	(163)	(185)	(1,751)
Income taxes paid .....	(1,327)	(811)	(14,262)
Other .....	249	41	2,676
<b>Net cash provided by operating activities</b> .....	<b>2,561</b>	<b>2,782</b>	<b>27,525</b>
<b>II. Cash flows from investing activities:</b>			
Payments for purchases of property, plant and equipment .....	(1,255)	(829)	(13,488)
Proceeds from sales of property, plant and equipment .....	767	576	8,243
Payments for purchases of investment securities .....	(1,120)	(219)	(12,037)
Proceeds from sales of investment securities .....	239	259	2,568
Other proceeds .....	1,052	308	11,306
Other payments .....	(370)	(1,597)	(3,976)
<b>Net cash used in investing activities</b> .....	<b>(687)</b>	<b>(1,502)</b>	<b>(7,383)</b>
<b>III. Cash flows from financing activities:</b>			
Proceeds from short-term bank loans .....	510	80	5,481
Disbursements for repayments of short-term bank loans .....	(416)	(140)	(4,471)
Repayments on redemption of long-term debt .....	(970)	(440)	(10,425)
Other payments .....	(608)	(589)	(6,534)
<b>Net cash used in financing activities</b> .....	<b>(1,486)</b>	<b>(1,089)</b>	<b>(15,971)</b>
<b>IV. Net increase (decrease) in cash and cash equivalents</b> .....	<b>387</b>	<b>190</b>	<b>4,159</b>
<b>V. Cash and cash equivalents at beginning of year</b> .....	<b>14,453</b>	<b>14,263</b>	<b>155,341</b>
<b>VI. Cash and cash equivalents at end of year</b> .....	<b>¥14,873</b>	<b>¥14,453</b>	<b>\$159,855</b>

Note: The U.S. dollar amounts represent translation of Japanese yen at the rate of ¥93.04=\$1.00 on March 31, 2010.

## CORPORATE DATA

As of March 31, 2010

Name:	TSUZUKI DENKI CO., LTD.
Head Office:	19-15, Shinbashi 6-chome, Minato-ku, Tokyo 105-8665, Japan
Established:	May 1, 1932
Capital:	¥9,812,930,540
Number of Employees:	1,183

## BOARD OF DIRECTORS

As of June 29, 2010

### Directors

Shuichi Torigata	Chairman
Hajime Ando*	President
Kangi Okamoto	Senior Managing Director
Yoshio Takeuchi	Managing Director
Toshihisa Mizushima	Managing Director
Kazunori Yoshii	Managing Director
Isao Emori	Managing Director
Chikafumi Urakawa	Director

\*Representative Director

Toshiya Mukohda	Director
Kazuhiro Shimura	Director
Hideki Hiura	Director

### Auditors

Yoshinari Uchida	Standing Statutory Auditor
Kinjiro Shishido	Statutory Auditor
Kimihiko Tada	Statutory Auditor

## MAJOR SHAREHOLDERS

As of March 31, 2010

Name	Number of shares held	Percentage of shares issued (%)
1. Goldman Sachs International	2,572,000	10.13
2. Fujitsu Limited	2,402,235	9.46
3. Employees' Stockholding	1,242,170	4.89
4. The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,037,907	4.09
5. Sumitomo Mitsui Banking Corporation	751,215	2.96
6. Mizuho Bank, Ltd.	525,607	2.07
7. Deutsche Bank AG London-PB Non-Treaty Clients 613	524,000	2.06
8. Hiroyoshi Shinya	466,000	1.84
9. CBNY DFA INTL Cap Value Portfolio	376,000	1.48
10. UNIMAT LIFE CORPORATION	360,000	1.42

## PRINCIPAL SUBSIDIARIES

### Subsidiaries (consolidated)

Tsuzuki Densan Co., Ltd.	Sales of semiconductors, electronic components, and personal computer equipment
Tsuzuki Techno Service Co., Ltd.	Maintenance of computers and office automation equipment
Tsuzuki Software Co., Ltd.	Design of software
Tsuzuki Amenity Co., Ltd.	Sales and installation of air-conditioning equipment

## BRANCHES AND OFFICES

As of March 31, 2010

Branches:	Hokkaido, Kanagawa, Nagoya, Kyoto, Osaka, Kobe, Takamatsu, Kyushu
Offices:	Asahikawa, Muroran, Tohoku, Mito, Tsukuba, Chiba, Omiya, Kawasaki, Kofu, Shizuoka, Hamamatsu, Toyota, Ogaki, Okayama, Hiroshima, Tokushima, Matsuyama, Kochi

 **TSUZUKI DENKI CO., LTD.**