

(2) Consolidated financial position

	Total assets	Shareholders' equity	Equity ratio	Shareholders' equity per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
March 31, 2004	49,676	31,785	64.0	1,013.23
March 31, 2003	46,159	27,133	58.8	998.21

(Note)

Number of outstanding shares at end of term (consolidated):

March 2004 term: 31,370,020 shares

March 2003 term: 27,110,899 shares

(3) Consolidated cash flows statement

	Net cash provided by operating activities	Net cash used in investing activities	Net cash used in financing activities	Cash and cash equivalents at end of term
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
March 31, 2004	4,141	(1,649)	(721)	11,512
March 31, 2003	3,974	(2,035)	(1,849)	9,861

(4) Scope of consolidation and application of the equity method

Consolidated subsidiaries: 12

Unconsolidated subsidiaries accounted for under equity method:

Affiliated companies accounted for under equity method:

(5) Changes in scope of consolidation and in application of the equity method

Consolidation (new): (elimination):

Equity method (new): (elimination):

2. Consolidated forecasts for March 2005 term (From April 1, 2004 to March 31, 2005)

	Net sales	Ordinary profit	Net income
	(Millions of yen)	(Millions of yen)	(Millions of yen)
Interim term	30,500	2,660	1,500
Annual	62,100	6,060	3,500

(N.b.) Estimated earnings per share (annual): 111.57 yen

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.

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1. Group organization

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

All twelve subsidiaries involved in the Company's business are wholly owned. All are consolidated subsidiaries and their roles are as shown below.

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

Business	Main products and services	Contents	Companies
Mechatronic products business			
Electronic printers	Electronic printers, labeling robots, automatic labelers, maintenance services	Production	SATO CORPORATION BAR CODE SATO ELECTRONICS (M) SDN BHD (Malaysia) SATO ELECTRONICS (M) SDN BHD (Malaysia) (3 companies)
		Sales	SATO CORPORATION BARCODE SATO INTERNATIONAL PTE LTD (Singapore) <i>Sales to the following subsidiaries</i> SATO AMERICA INC. (U.S.A.) BAR CODE SATO ELECTRONICS (S) PTE LTD (Singapore) SATO DEUTSCHLAND GmbH (Germany) SATO EUROPE N.V (Belgium) SATO BAR CODE & LABELLING SDN BHD (Malaysia) SATO UK LTD (U.K.) BARCODE SATO (THAILAND) CO., LTD. (Thailand) SATO POLSKA Sp. z o.o. (Poland) SATO SHANGHAI CO., LTD (China) (11 companies)
Hand labelers	One line hand labelers, multiliner hand labelers, software, maintenance services	Production	SATO CORPORATION SATO ELECTRONICS (M) SDN BHD (Malaysia) BAR CODE SATO ELECTRONICS (M) SDN BHD (Malaysia) (3 companies)
		Sales	SATO CORPORATION BARCODE SATO INTERNATIONAL PTE LTD (Singapore) <i>Sales to the following subsidiaries</i> SATO AMERICA INC. (U.S.A.) BAR CODE SATO ELECTRONICS (S) PTE LTD (Singapore) SATO EUROPE N.V (Belgium) SATO BAR CODE & LABELLING SDN BHD (Malaysia) SATO UK LTD (U.K.) BARCODE SATO (THAILAND) CO., LTD. (Thailand) SATO POLSKA Sp. z o.o. (Poland) SATO SHANGHAI CO., LTD (China) (10 companies)
Supply products business			
Labels, tags, IC tags/labels, tickets, ribbons, MC-cards and supply products	Electronic printer labels/tags, carbon ribbons, hand labeler labels, product labels, magnetic cards, tickets	Production	SATO CORPORATION SATO AMERICA INC. (U.S.A.) BAR CODE SATO ELECTRONICS (S) PTE LTD (Singapore) SATO UK LTD (U.K.) BARCODE SATO (THAILAND) CO., LTD. (Thailand) (5 companies)
		Sales	SATO CORPORATION BARCODE SATO INTERNATIONAL PTE LTD (Singapore) <i>Sales to the following subsidiaries</i> SATO AMERICA INC. (U.S.A.) BAR CODE SATO ELECTRONICS (S) PTE LTD (Singapore) SATO DEUTSCHLAND GmbH (Germany) SATO EUROPE N.V (Belgium) SATO BAR CODE & LABELLING SDN BHD (Malaysia) SATO UK LTD (U.K.) BARCODE SATO (THAILAND) CO., LTD. (Thailand) SATO POLSKA Sp. z o.o. (Poland) SATO SHANGHAI CO., LTD (China) (11 companies)

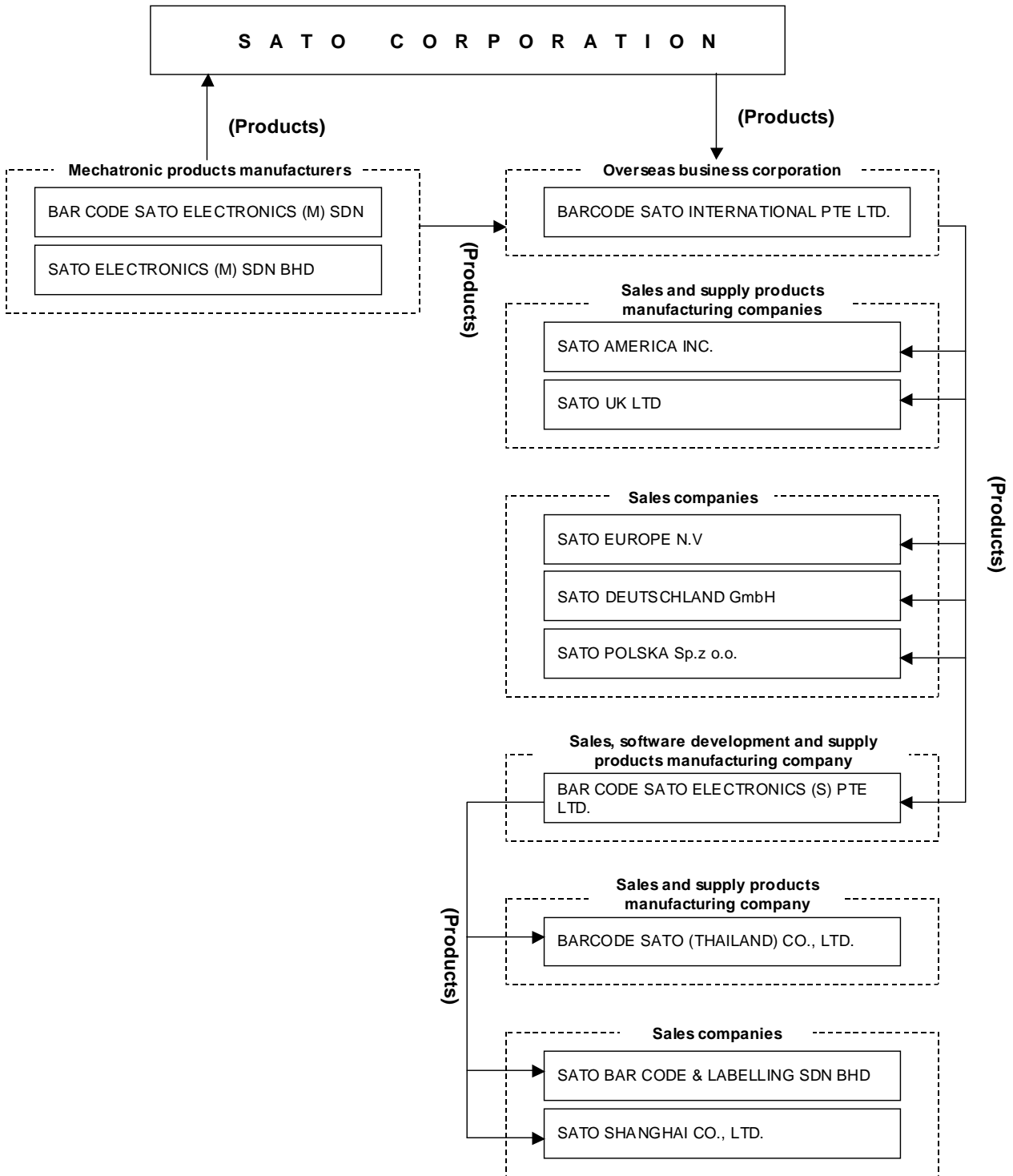
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(Notes)

1. BAR CODE SATO ELECTRONICS (M) SDN BHD and BARCODE SATO INTERNATIONAL PTE LTD. are subsidiaries of the Company.
2. SATO ELECTRONICS (M) SDN BHD is a subsidiary of BAR CODE SATO ELECTRONICS (M) SDN BHD.
3. SATO AMERICA INC., BAR CODE SATO ELECTRONICS (S) PTE LTD., SATO DEUTSCHLAND GmbH, SATO EUROPE N.V, SATO UK LTD and SATO SHANGHAI CO., LTD are subsidiaries of BARCODE SATO INTERNATIONAL PTE LTD.
4. SATO BAR CODE & LABELLING SDN BHD and BARCODE SATO (THAILAND) CO., LTD. are subsidiaries of BAR CODE SATO ELECTRONICS (S) PTE LTD.
5. SATO POLSKA Sp. z o.o. is a subsidiary of SATO DEUTSCHLAND GmbH.

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



2. Management Policies

1. Fundamental policy

Since its founding, the Sato group has pursued a policy of “total commitment to the highest standards of a firm whose business is production and sales,” under the watchword “never-ending creativity.” The aim of this fundamental policy is to contribute to society by promoting the corporate concept of “DCS (Data Collection Systems) & Labeling,” whose goal is realizing accuracy, labor savings, and resource conservation.

2. Policy regarding the distribution of profits

The Company’s fundamental policy regarding the distribution of profits is to “provide value to four parties” – shareholders, society, the Company, and its employees.

In line with its financial performance, the Company declared total dividends for the year ended March 31, 2004 of ¥28 per share (including an interim dividend of ¥13). This reflected a year-on-year increase in the ordinary dividend of ¥3 per share, together with an extra ¥1 to commemorate the tenth anniversary of the Company’s Tokyo Stock Exchange listing, resulting in the total increase of ¥4 per share.

The Company aims to achieve a high degree of efficiency in its investment of retained earnings. This will entail the allocation of required amounts to research and development and capital equipment, as well as to overseas expansion.

3. Views and policies regarding the lowering of units of investment

In February 2004, the Company made a public offering of 700,000 ordinary shares to increase market liquidity in the Company’s shares and to encourage an increase in the number of individual shareholders. The Company will continue to review appropriate actions to increase market participation by individual investors while ensuring timely and full disclosure of information for investors.

4. Management indices

The Sato Group’s key management indices are return on equity (ROE) and net income per share. The Company has set performance benchmarks for improving shareholder value of 10% for ROE and EPS of ¥120.

5. Medium- to long-term management strategy

Based on the policies outlined above, the Company aims to become a leading company in the emerging auto-identification industry, both in Japan and overseas markets. The Company has set consolidated performance goals for fiscal 2006 of ¥73,000 million in net sales and ¥7,600 million in operating income. Key ongoing strategic initiatives to achieve these objectives are discussed briefly below.

a. Global expansion of DCS & Labeling

“DCS & Labeling” is the name that the Company gives to its unique business model. The Company designs and develops tailored, integrated on-site data-processing systems to provide customers with optimal solutions for specific operational site requirements. The Company is committing considerable resources and efforts to develop this business model in markets around the world, thereby increasing global sales and raising competitiveness.

b. Adapting to a society of ubiquitous computing

Rapid IT development is fueling a fundamental ongoing shift in society toward ubiquitous computing. Demand for marking and identification of items on an “anytime, anywhere” basis is steadily increasing. The Company is working to develop this nascent market for pervasive labeling and identification by assessing the precise requirements involved and developing products of high operability and functionality to supply growing demand.

Developing products that can meet diverse operational site requirements, the Company seeks total solutions capable of delivering optimal combinations of specific auto-identification technologies (bar codes, 2-D bar codes, IC tags/labels) and the related equipment needed to realize the benefits of such technology (printers, scanners, other peripherals, software and supply products).

c. Building up “ small changes ” and “never-ending creativity”

The Company recognizes that standing still is not an option when striving to generate sustained growth in global performance. The Company is committed to a process of constant, building up “ small changes ” to realize its motto of “never-ending creativity.” Only through a process of constant innovation and growth can the Company develop and improve the technology, products and expertise (such as IC tags/labels and other key elements) that are needed to reach the highest standards of product quality and to provide customers with high-level auto-identification solutions.

d. Promotion of corporate social responsibility (CSR)

In April 2004, the Company established a central CSR Department to oversee all activities related to corporate social responsibility (CSR) and socially responsible investment (SRI). Based on the contribution to society afforded by a business that aids accuracy and conservation of labor and resources, the Company seeks to create an honest corporate culture while aiming to enhance the value of its corporate brand. Internal efforts in this area are primarily focused at present on strengthening the Company systems for compliance, risk management and environmental management. The main external focus is on ensuring proactive disclosure of information to establish higher levels of trust with all stakeholders.

e. Human resources (HR) development

The Company aims to cultivate an adaptable and culturally sensitive global workforce. Expansion of overseas subsidiaries is based on hiring local people who are well versed in the industry. The Company runs its own training programs to develop future generations of corporate leaders. It also utilizes an original system of knowledge management based on three line reporting system that is designed to promote organizational and individual growth. Recognizing the value of retaining personnel in an age of declining birth rates and aging populations, the Company seeks to create working conditions conducive to employing women and seniors. The Company has also implemented a system of annual salaries for all employees as part of ongoing revisions to its HR policies in an effort to reward performance more highly.

6. Issues requiring action

a. Business development overseas

The Company is pursuing the following initiatives to promote the development of the “DCS & Labeling” concept in various markets around the world.

- Adapting business to specific countries and regions
Different languages, cultures and systems necessitate localization programs in various countries and regions across Europe and Asia. The Company is selling printers adapted to different languages while working to develop its local sales capabilities in each market. The main emphasis for sales expansion is on applications in the retail and medical sectors, where demand

for auto-identification technologies is greatest.

- Promotion of supply-chain management (SCM)
Each of the Company's sales subsidiaries is establishing its own production capability for supply products to ensure stable supplies at the user level and raise sales.
- Development of enhanced customer responsiveness and marketing
BARCODE SATO INTERNATIONAL PTE LTD which coordinates the Company's overseas business, has established a dedicated firmwear team to boost development efforts for printers with specialized specifications. The Company is also focusing on upgrading its applications software and range of supply products to enhance the Company's ability to propose and deliver fast, optimized solutions to customers.
- Improved maintenance service capabilities
To ensure customers throughout the world can use its products with confidence, the Company is upgrading the maintenance and servicing capabilities of all overseas sales subsidiaries, while also striving to improve the technical expertise and level of service provided by principal international distributors and sales agents.

b. Business development in Japan

Demand for pervasive labeling and identification is expected to continue growing in Japan across a wide range of sectors as ubiquitous network computing spreads. Requirements for traceability (the tracking of a product from source to consumer) are now becoming a fact of life for the entire food industry as concerns mount about the safety of food products. Demand has also been increasing in the medical sector. In all these areas, the Company strives to find optimal solutions for customers tailored to their specific needs.

- Development capabilities for basic supplies; upgrading of production systems in supply products, the Company is developing a clear point of differentiation in its ability to create items that can utilize specialized basic supplies in small lots. The Company is also upgrading its production systems using digital printing technology to realize 24-hour operation and small-lot supply capabilities.
- Establishment of efficient materials procurement systems
In April 2004, the Company established the Purchasing Center as a centralized function to promote global procurement of materials used in printers and hand labelers. The Company is constructing supply-chain management (SCM) systems in a bid to reduce costs, shorten delivery times, alleviate currency risk and speed up shifts to mass production. At the same time, the Company continues to extend its capabilities in terms of new product development/design and responsiveness to changes in the business environment.
- Development of web-based environments and Telecommunications Center
The Telecommunications Center focuses on boosting order-processing efficiency by supporting the activities of operating bases through the sale of supply products in smaller quantities over the Internet. The Company is also working to extend the range of products available over the Internet at its online e-commerce site, known as the "Web Shop."
- Improved maintenance service capabilities
Efforts are underway to upgrade the technical expertise of CE (customer engineers) and improve the levels of telephone-based customer service available through the Maintenance Center outside of normal business hours.

c. Development of new products and technology, sales promotion

- Aggressive introduction of new products

The Company is aggressively introducing new products into markets in Japan and overseas. Upcoming product introductions in Japan include portable printers with inbuilt pricing capabilities and other advanced functions, small desktop printers, printers for industrial applications, hand labelers designed primarily for use in food and ingredient monitoring applications within the restaurant industry, and specialized label separator.

Overseas, the Company is planning the introduction of various price-competitive ranges of portable printers, printers for industrial applications, and printers with detachable label-affixing devices that can slot into the main unit.

- Commercialization of IC tags and labels

IC tags/labels and other items based on non-contact radio frequency identification (RFID) technology have become a major focus of market attention. Extending the progress already made with bar codes and 2-D bar codes, the Company is working to develop auto-identification applications for IC tags/labels. In view of the large future growth in demand projected in this area, the Company is undertaking various field trials in Japan and overseas to ensure products meet customers' functional, technical and cost requirements. Development programs are also progressing to commercialize solutions that are technically compatible with existing bar code-based systems.

7. Basic thinking regarding corporate governance and status of actions taken

a. Basic thinking regarding corporate governance

The Company's philosophy is that the true owners of a business enterprise are its shareholders. Based on this thinking, the Company seeks to maintain management transparency and objectivity while responding swiftly to ongoing changes through improvements in organizational structures for corporate governance, including the establishment of channels that allow employees to express opinions freely. The Company is also taking steps to increase the number of outside board directors to strengthen management oversight functions.

b. Status of actions relating to corporate governance

The Company bases its corporate governance systems on the model outlined in the Commercial Code of Japan that uses corporate auditors. By resolution of a meeting of the Board of Directors held immediately after the 53rd Ordinary General Meeting of Shareholders in 2003, the Company adopted the system of corporate executive officers. This system aims to separate supervisory oversight of managerial decision-making from the policy execution management responsibilities of the Board of Directors.

To strengthen further the management oversight functions of the Board of Directors, the Company plans to introduce a resolution at the 54th Ordinary General Meeting of Shareholders in 2004, permitting the appointment of another two outside directors.

Boards of directors, corporate auditors and executive officers – each chaired by the president of the Company – meet to discuss and make decisions on important operational issues, including all matters stipulated in the relevant sections of the Commercial Code of Japan as requiring board-level approval. A management council composed of senior managers provides a separate forum for debate and decision-making on issues relating to the execution of policy.

Internal control mechanisms include a system of regular internal audits. Established in April 2001, the Risk Management Committee raises internal awareness of issues related to legal compliance and corporate ethics. In April 2004, the major functions of this committee were incorporated into the

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activities of a newly created CSR Department. The Company complements these activities as required with external advice from professional legal and auditing firms.

Another aspect of corporate governance at the Company is its unique system of knowledge management developed over more than three decades. This is based on three-line reporting requirements, which involve daily submittal of proposals for improvements by employees that are processed at director level. Such detailed reporting on creative innovations, areas where improvement is needed, and proposed solutions, helps the Company identify problems quickly, while also providing the ideas required for ongoing reform. This system not only promotes better corporate governance but also contributes to improved compliance.

3. Results of operations and Cash flows

1. Results of operations

a. Summary of financial performance (Fiscal 2003)

Demand for printers and supply products in Japan was extremely buoyant in the first quarter of the year ended March 31, 2004 after the Container and Packaging Recycling Law came into force on April 1, 2003. The Company's results received a particular boost in the early part of the year as a result. Demand also rose as concerns over traceability mounted within the meat, food processing and fresh produce sectors of the Japanese food industry in the wake of concerns over the U.S. outbreak of BSE (bovine spongiform encephalopathy) and the avian influenza in Asia.

The Company's sales also benefited from strong demand in other sectors, including hospitals (error prevention), volume retailers, department stores, the Japan Automobile Manufacturers Association (electronic data interchange (EDI) projects), and various other parts of the manufacturing and distribution sectors (warehouse inventory management).

Demand also rose sharply on a year-on-year basis in the second half of the year as retailers prepared for the implementation of new rules on April 1, 2004 mandating the labeling of all products to show the total value of consumption tax per item. This change generated a substantial jump in the Company's sales due to fresh demand for printers, hand labelers and supply products.

The Company responded to rapidly changing market conditions with the introduction of new types of printer for the food industry boasting superb operability as well as the launch of printers specially designed to be compatible with IC tags and labels. The Company also further expanded its lineup of products tailored to specific operational site requirements.

In overseas markets, the Company continued to develop and promote its "DCS & Labeling" concept. The Company actively expanded workforces at local overseas sales subsidiaries and implemented a range of other measures to support ongoing growth.

In the U.S., the Company increased the size of market-specific sales teams and undertook regional road shows across the country to provide technical training and to support the product promotion efforts of local business partners. In Europe, the Company sales teams from Japan provided direct operational support to promotional efforts in European markets. The Company also organized a symposium on RFID technology to promote its products based on IC tags and labels. In Asia, local production of labels, tags and supply products commenced at a subsidiary in Thailand. The Company also organized a number of exhibitions designed to showcase the application of its products and technology in areas such as medical care and RFID.

During the year, the Company successfully negotiated various large contracts in countries around the world. These major deals resulted in new customers as varied as a U.S. drugstore chain, a leading British supermarket chain (price-discount management system), the German postal service Deutsche Post, and a Chinese tobacco company (automatic label-affixing equipment).

Consolidated net sales in the year ended March 31, 2004 amounted to ¥58,862 million (up 10.1% year-on-year). Operating income, ordinary profit and net income totaled ¥5,506 million (+14.1%), ¥5,200 million (+12.0%) and ¥2,790 million (+38.1%), respectively.

Segment results were as follows:

(a) Mechatronics products

The segment posted operating income of ¥3,010 million (+17.7%) on sales of ¥26,670 million (+10.5%).

(b) Supply products

The segment posted operating income of ¥2,495 million (+9.9%) on sales of ¥32,192 million (+9.7%).

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b. Forecast for the year to March 2005 (Fiscal 2004)

In Japan, the Company plans to continue to focus on expanding sales in areas where demand is growing such as the food, medical and distribution sectors. Efforts will also continue to develop new market segments and to launch new products. While striving to raise further the value added by its employees, who count as one of the Company's major strengths, the Company plans to continue working to develop products that fulfill the diverse needs of a society being gradually transformed by ubiquitous computing. Besides ongoing programs to broaden the lineup and to differentiate products from those of competitors by means of improved designs, these efforts will also include a renewed focus on reaching smaller customers and attaining higher levels of customer service.

The Company remains committed to realizing its strategy for the medium and long term and striving to achieve related performance objectives.

In overseas markets, efforts will continue to rebuild sales infrastructure, establish new operating bases and expand local sales. Based on the "DCS & Labeling" concept, the Company plans to promote further development around the world by tailoring sales strategies to local conditions.

The Company forecasts consolidated results in fiscal 2004 (the year ending March 2005) as follows: net sales: ¥62,100 million (+5.5%); operating income: ¥6,060 million (+10.0%); ordinary profit: ¥6,060 million (+16.5%); net income: ¥3,500 million (+25.4%).

(Reference data)

Consolidated Forecasts for Fiscal 2004 (April 1, 2004 – March 31, 2005)

	Interim		Full-Term	
	Millions of yen	Change (%)	Millions of yen	Change (%)
Net sales	30,500	+7.8	62,100	+5.5
Operating income	2,660	+7.6	6,060	+10.0
Ordinary profit	2,660	+13.6	6,060	+16.5
Net income	1,500	+6.2	3,500	+25.4

Segment sales forecasts are given below.

[Product Segment Forecasts]

(a) Mechatronics products: full-term sales of ¥27,400 million (+2.7%).

(b) Supply products: full-term sales of ¥34,700 million (+7.8%).

2. Cash flows in the year to March 2004

Consolidated cash and cash equivalents (referred to below as “cash”) increased by ¥1,651 million relative to the previous year. As of the fiscal 2003 year-end, cash totaled ¥11,512 million. The major cash flow-related factors for fiscal 2003 are outlined below.

Net cash provided by operating activities

Net cash provided by operating activities amounted to ¥4,141 million. This was mainly due to positive cash flows from income before adjustments for income taxes and from depreciation expenses. An increase in notes and accounts payable of ¥1,071 million was another contributing factor. Significant offsetting factors included an increase in notes and accounts receivable of ¥2,111 million, a decrease in the reserve for directors’ bonuses of ¥366 million, and income taxes paid totaling ¥1,963 million.

Net cash used in investing activities

Net cash used in investing activities totaled ¥1,649 million. This was mainly attributable to purchases of tangible and intangible fixed assets.

Net cash used in financing activities

Net cash used in financing activities amounted to ¥721 million, principally as a result of cash dividend payments totaling ¥745 million.

An unsecured convertible bond issue of ¥5,000 million originally issued on June 7, 1996 matured on September 30, 2003. During the first half of fiscal 2003, the Company made capital transfers totaling ¥3,152 million against the unredeemed outstanding portion of the bond, which amounted to ¥3,176 million as of March 31, 2003. The balance of the issue was redeemed in full at maturity. These moves resulted in an increase in common stock of ¥1,577 million to ¥6,331 million. Capital reserves increased by ¥1,575 million to ¥5,790 million.

3. Trend in cash flow indicies

	March 31, 2001	March 31, 2002	March 31, 2003	March 31, 2004
Equity ratio (%)	55.8	58.2	58.8	64.0
Equity ratio based on market value (%)	154.4	172.3	126.3	171.8
Debt-repayment period (yrs)	0.2	0.1	0.1	0.1
Interest-coverage ratio (%)	45.5	72.1	88.6	117.8

Notes:

1. The equity ratio is equal to shareholders’ equity divided by total assets.
2. The equity ratio based on market value is equal to total stock market capitalization divided by total assets.
3. The debt-repayment period 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.

Consolidated balance sheet

Years ended March 31; Millions of yen	2003	%	2004	%	Year-on-year change
Current assets					
Cash	9,911		11,562		1,651
Notes and accounts receivable	12,227		14,112		1,884
Marketable securities	50		50		0
Inventories	5,901		5,700		(200)
Deferred credit	824		851		26
Deferred taxes	574		498		(76)
Others	495		366		(128)
Allowance for doubtful accounts	(75)		(57)		18
Total current assets	29,908	64.8	33,084	66.6	3,175
Fixed assets					
Tangible fixed assets					
Buildings and structures	8,492		8,589		
Accumulated depreciation	3,371		3,689		
	5,120		4,900		(220)
Machinery, equipment and delivery equipment	6,118		6,672		
Accumulated depreciation	4,339		4,633		
	1,779		2,038		259
Tools, furniture and fixtures	3,516		3,433		
Accumulated depreciation	2,728		2,628		
	787		804		17
Land	4,994		5,000		5
Construction in progress	125		34		(91)
	12,806	27.7	12,778	25.7	(28)
Intangible fixed assets					
Leaseholds	226		195		(30)
Others	914		1,603		688
	1,141	2.5	1,799	3.6	658
Investments and other assets					
Investment securities	227		340		112
Long-term loans	65		37		(27)
Guarantee deposits	697		724		26
Deferred taxes	575		263		(312)
Others	842		753		(88)
Allowance for doubtful accounts	(106)		(106)		0
	2,302	5.0	2,014	4.1	(288)
Total fixed assets	16,250	35.2	16,592	33.4	341
Total assets	46,159	100.0	49,676	100.0	3,516

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Years ended March 31; Millions of yen	2003	%	2004	%	Year-on-year change
Current liabilities					
Notes and accounts payable	4,083		4,908		825
Short-term borrowings	276		332		55
Convertible bonds redeemable within 1 year	3,176		-		(3,176)
Accounts payable - other	6,106		7,211		1,105
Income taxes payable	959		1,407		447
Reserve for bonuses	878		458		(419)
Allowance for Directors' bonuses	-		50		50
Notes payable - plant and equipment	133		362		228
Others	2,538		2,634		95
	<u>18,151</u>	39.3	<u>17,365</u>	34.9	<u>(786)</u>
Long-term liabilities					
Reserve for employees' retirement benefits	356		29		(327)
Reserve for directors' retirement allowances	318		270		(48)
Others	198		221		23
	<u>873</u>	1.9	<u>521</u>	1.1	<u>(351)</u>
Total liabilities	<u>19,025</u>	41.2	<u>17,887</u>	36.0	<u>(1,138)</u>
Minority interest in consolidated subsidiaries					
	0	0.0	4	0.0	3
Shareholders' equity					
Common stock	4,753	10.3	6,331	12.7	1,577
Capital reserves	4,214	9.1	5,790	11.7	1,575
Retained earnings	20,069	43.5	22,041	44.4	1,971
Other investment valuation expenses	(9)	(0.0)	106	0.2	115
Foreign exchange adjustment account	(354)	(0.8)	(922)	(1.9)	(567)
Treasury stock	(1,539)	(3.3)	(1,561)	(3.1)	(21)
Total shareholders' equity	<u>27,133</u>	58.8	<u>31,785</u>	64.0	<u>4,651</u>
Total liabilities and shareholders' equity	<u>46,159</u>	100.0	<u>49,676</u>	100.0	<u>3,516</u>

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Consolidated statements of income

Years ended March 31; Millions of yen	2003	%	2004	%	Year-on-year change
Net sales	53,465	100.0	58,862	100.0	5,397
Cost of sales	29,502	55.2	31,997	54.4	2,494
Gross profit on sales	23,962	44.8	26,865	45.6	2,902
Selling, general and administrative expenses	19,134	35.8	21,358	36.2	2,224
Operating income	4,828	9.0	5,506	9.4	678
Non operating income					
Interest income	48		23		
Dividend income	4		5		
Gain on sale of investment securities	-		50		
Valuation gain from swap transaction	-		102		
Product warranty fees	6		4		
Commissions and fees	15		13		
Others	38		194		
	113	0.2	395	0.6	282
Non operating expenses					
Interest expenses	44		35		
Loss on disposal of inventories	49		90		
Foreign exchange loss	150		406		
Others	53		169		
	297	0.5	701	1.2	403
Ordinary profit	4,643	8.7	5,200	8.8	556
Extraordinary gains					
Gain on reversal of allowance for retirement benefits	-		531		
Gain on sale of investment securities	-		21		
Gain on sales of fixed assets	26		0		
	26	0.1	553	1.0	527
Extraordinary losses					
Loss on business restructuring	438		211		
Loss on sales of fixed assets	13		-		
Loss on disposal of fixed assets	35		24		
Loss on valuation of investment securities	128		5		
Valuation loss on equity investment	4		-		
Others	-		1		
	620	1.2	242	0.4	(377)
Income before adjustments for income taxes	4,050	7.6	5,511	9.4	1,461
Corporate, inhabitant and enterprise taxes	1,854		2,411		
Deferred taxes	178		314		
	2,032	3.8	2,726	4.7	693
Minority interest in income of consolidated subsidiaries	3	0.0	4	0.0	1
Net income	2,020	3.8	2,790	4.7	769

SATO CORPORATION

Consolidated statements of retained earnings

Years ended March 31; Millions of yen	2003	2004	Year-on-year change
Capital reserves			
Capital reserves at beginning of year			
Additional paid-in capital at beginning of year	4,195	4,214	19
Increase in capital reserves			
Increase due to conversion of convertible bonds	18	1,575	
Gain on sale of treasury stock	0	0	
	19	1,575	1,556
Capital reserves at end of year	4,214	5,790	1,575
Retained earnings			
Retained earnings at beginning of year			
Consolidated retained earnings at beginning of year	18,795	20,069	1,273
Increase in retained earnings			
Net income	2,020	2,790	
	2,020	2,790	769
Decrease in retained earnings			
Dividends - total	669	746	
Directors' bonuses	77	71	
	747	818	71
Retained earnings at end of year	20,069	22,041	1,971

SATO CORPORATION

Consolidated statements of cash flows

Years ended March 31; Millions of yen	2003	2004
Net cash provided by operating activities		
Income before adjustments for income taxes	4,050	5,511
Depreciation expenses	1,393	1,444
Gain on sales of tangible fixed assets	(26)	0
Loss on sales of tangible fixed assets	13	-
Loss on valuation of investment securities	128	5
Gain on sales of investment securities	-	(21)
Gain on sales of marketable securities	-	(50)
Loss on disposal of fixed assets	35	24
Loss on business restructuring	438	211
Increase (decrease) in allowance for doubtful accounts	31	(16)
Increase (decrease) in reserve for bonuses	(342)	(366)
Increase (decrease) in reserve for directors' retirement allowances	(706)	(48)
Reserve for retirement benefits	(11)	(327)
Interest and dividends received	(53)	(29)
Interest expenses	44	35
Foreign exchange loss and gain	62	(176)
Decrease (increase) in notes and accounts receivable	609	(2,111)
Decrease (increase) in inventories	(242)	(5)
Decrease (increase) in prepaid expenses	(97)	53
Decrease (increase) in accounts receivable - others	105	(30)
Increase (decrease) in notes and accounts payable	434	1,071
Directors' bonuses	(77)	(71)
Others	307	1,138
	6,097	6,237
Payments related to losses on business restructuring	(329)	(127)
Interest and dividends received	53	29
Interest paid	(44)	(35)
Income taxes paid	(1,801)	(1,963)
	3,974	4,141
Net cash used in investing activities		
Increase in time deposits	(354)	(100)
Decrease in time deposits	409	100
Payments for investment in securities	-	(396)
Proceeds from sales of marketable securities	-	447
Proceeds from sales of investment securities	-	98
Purchase of tangible fixed assets	(1,608)	(1,091)
Proceeds from sales of tangible fixed assets	147	64
Purchase of intangible fixed assets	(382)	(908)
Others	(247)	137
	(2,035)	(1,649)

SATO CORPORATION

Years ended March 31; Millions of yen	2003	2004
Net cash used in financing activities		
Increase (decrease) in short-term borrowings	(74)	68
Payments of redemption of convertible bonds	-	(23)
Proceeds from sales of treasury stock	8	7
Purchase of treasury stock	(1,114)	(29)
Cash dividend paid	(668)	(745)
	<u>(1,849)</u>	<u>(721)</u>
Effect of exchange rate changes on cash and cash equivalents	(155)	(119)
Net increase in cash and cash equivalents	(64)	1,651
Cash and cash equivalents at beginning of year	9,926	9,861
Cash and cash equivalents at end of year	<u>9,861</u>	<u>11,512</u>