

Interim Kessan Report for the March 2005 Term (Consolidated)

November 15, 2004

SATO CORPORATION

Company code number: 6287
(URL <http://www.sato.co.jp>)
Shares traded: TSE
Location of headquarters: Tokyo
Executive position of legal representative: Masanori Otsuka, President and COO,
Representative Corporate Executive Officer
Please address all communications to: Toshiro Umeda, Senior Executive Officer,
General Manager, Corporate Planning &
Administration Division
Phone: (03) 5789-2500
Date of Board of Directors' meeting for approval
of financial results: November 12, 2004
Adoption of U.S. accounting standards: No

1. Consolidated operating results (April 1, 2004 to September 30, 2004)

(1) Consolidated financial results

	Net sales		Operating income		Ordinary profit	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
September 30, 2004	30,786	8.8	2,632	6.5	2,635	12.5
September 30, 2003	28,287	5.3	2,471	12.5	2,341	16.9
March 31, 2004	58,862		5,506		5,200	

	Net income		Net income per share	Net income per share, fully diluted
	(Millions of yen)	%	(Yen)	(Yen)
September 30, 2004	1,437	1.8	45.82	45.79
September 30, 2003	1,412	50.5	46.88	45.01
March 31, 2004	2,790		90.73	88.92

(Notes)

- Gains or losses on investments through equity method accounting:
September 2004 term: - September 2003 term: -
March 2004 term: -
- Average number of outstanding shares during the term (consolidated):
September 2004 term: 31,372,491 shares September 2003 term: 30,126,787 shares
March 2004 term: 30,750,790 shares
- Changes in accounting methods: Yes
- The percentages shown next to net sales, operating income, ordinary profit and net income represent year-on-year changes.

(2) Consolidated financial position

	Total assets	Shareholders' equity	Equity ratio	Shareholders' equity per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
September 30, 2004	50,636	32,919	65.0	1,049.26
September 30, 2003	47,241	30,932	65.5	986.07
March 31, 2004	49,676	31,785	64.0	1,013.23

(Note)

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

September 2004 term: 31,374,025 shares

September 2003 term: 31,369,583 shares

March 2004 term: 31,370,020 shares

(3) Consolidated cash flow 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)
September 30, 2004	1,311	(1,239)	(476)	11,254
September 30, 2003	737	(663)	(275)	9,579
March 31, 2004	4,141	(1,649)	(721)	11,512

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

Consolidated subsidiaries: 13

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): 1 (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)
Annual	62,100	6,060	3,500

(N.b.) Estimated earnings per share (annual): 111.56 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.

1. Group organization

The Sato Group engages primarily in the production and sales of electronic printers, hand labelers and other related products, including labels, tags, tickets, IC tags/labels, ribbons, MC-cards and supply products. All thirteen subsidiaries involved in the Company's business are wholly owned.

All are consolidated subsidiaries and their roles are as shown below.

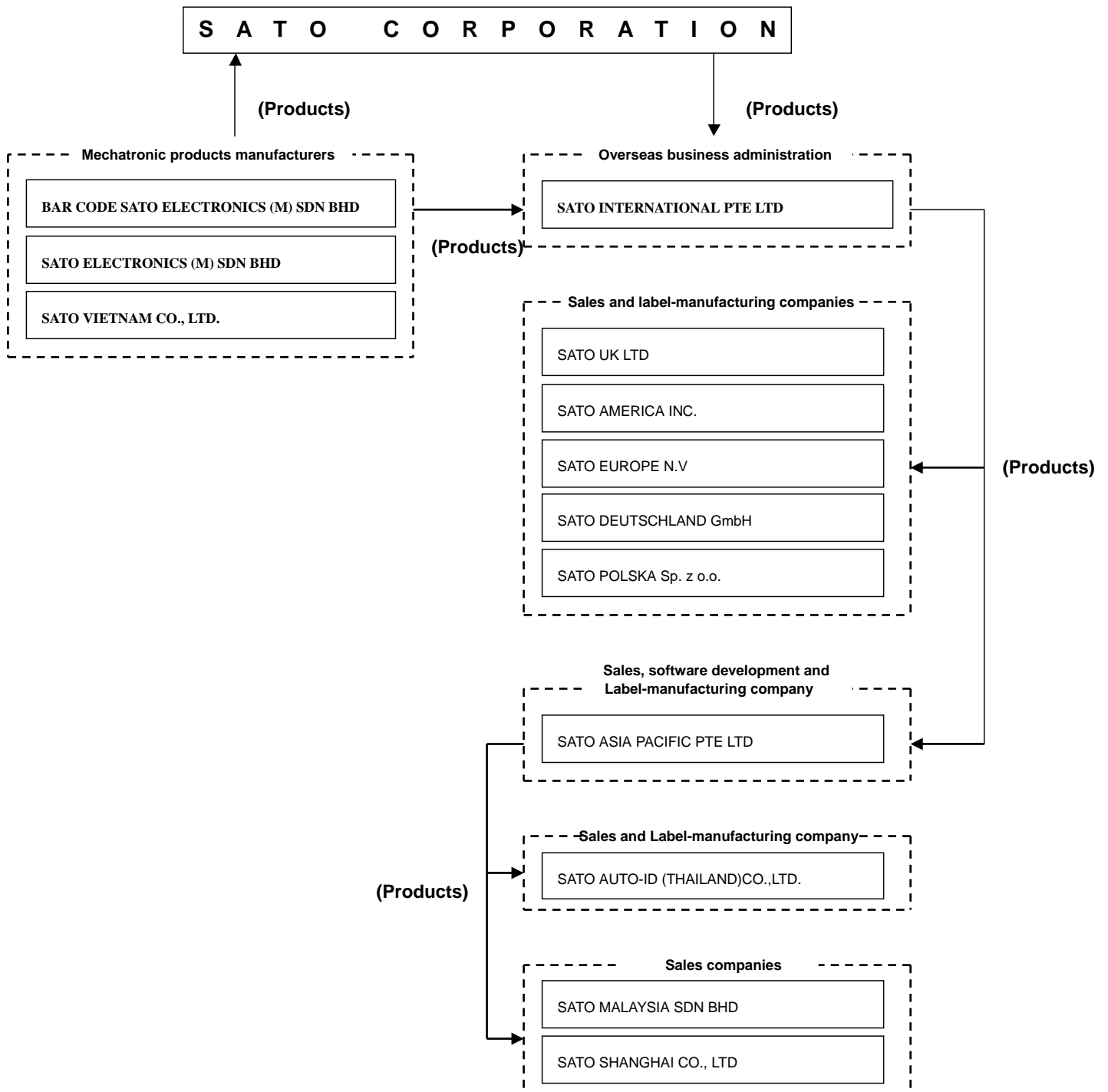
The business segmentation is the same as the "segment information by business."

Business	Main products and services	Contents	Companies
Mechatronic product 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) SATO VIETNAM CO., LTD. (Vietnam) (4 companies)
		Sales	SATO CORPORATION SATO INTERNATIONAL PTE LTD (Singapore) SATO AMERICA INC. (U.S.A.) SATO ASIA PACIFIC PTE LTD (Singapore) SATO DEUTSCHLAND GmbH (Germany) SATO EUROPE N.V (Belgium) SATO MALAYSIA SDN BHD (Malaysia) SATO UK LTD (U.K.) SATO AUTO-ID (THAILAND) CO., LTD. (Thailand) SATO POLSKA Sp. z o.o. (Poland) SATO SHANGHAI CO., LTD (China) (11 companies)
Hand labelers	One line hand labelers, multiline hand labelers, software, maintenance services	Production	SATO CORPORATION SATO ELECTRONICS (M) SDN BHD (Malaysia) BAR CODE SATO ELECTRONICS (M) SDN BHD (Malaysia) SATO UK LTD (U.K.) SATO VIETNAM CO., LTD. (Vietnam) (5 companies)
		Sales	SATO CORPORATION SATO INTERNATIONAL PTE LTD (Singapore) SATO AMERICA INC. (U.S.A.) SATO ASIA PACIFIC PTE LTD (Singapore) SATO DEUTSCHLAND GmbH (Germany) SATO EUROPE N.V (Belgium) SATO MALAYSIA SDN BHD (Malaysia) SATO UK LTD (U.K.) SATO AUTO-ID (THAILAND) CO., LTD. (Thailand) SATO POLSKA Sp. z o.o. (Poland) SATO SHANGHAI CO., LTD (China) (11 companies)
Supply products business			
Supply products including labels, tags, tickets, IC tags/labels, ribbons	Electronic printer labels/tags, carbon ribbons, hand labeler labels, product labels, magnetic cards, tickets	Production	SATO CORPORATION SATO AMERICA INC. (U.S.A.) SATO ASIA PACIFIC PTE LTD (Singapore) SATO DEUTSCHLAND GmbH (Germany) SATO UK LTD (U.K.) SATO AUTO-ID (THAILAND) CO., LTD. (Thailand) SATO POLSKA Sp. z o.o. (Poland) (7 companies)
		Sales	SATO CORPORATION SATO INTERNATIONAL PTE LTD (Singapore) SATO AMERICA INC. (U.S.A.) SATO ASIA PACIFIC PTE LTD (Singapore) SATO DEUTSCHLAND GmbH (Germany) SATO EUROPE N.V (Belgium) SATO MALAYSIA SDN BHD (Malaysia) SATO UK LTD (U.K.) SATO AUTO-ID (THAILAND) CO., LTD. (Thailand) SATO POLSKA Sp. z o.o. (Poland) SATO SHANGHAI CO., LTD (China) (11 companies)

(Notes)

1. BAR CODE SATO ELECTRONICS (M) SDN BHD, SATO INTERNATIONAL PTE LTD and SATO VIETNAM CO., LTD. are subsidiaries of the Company.
2. SATO ELECTRONICS (M) SDN BHD is a subsidiary of BAR CODE SATO ELECTRONICS (M) SDN BHD.
3. In October 2004, the Company changed the trade name of two of its subsidiaries: BAR CODE SATO ELECTRONICS (M) SDN BHD became SATO MALAYSIA MANUFACTURING SDN BHD; and SATO ELECTRONICS (M) SDN BHD became SATO LABELLING MALAYSIA ELECTRONICS SDN BHD.
4. SATO AMERICA INC., SATO ASIA PACIFIC PTE LTD, SATO DEUTSCHLAND GmbH, SATO EUROPE N.V, and SATO UK LTD are subsidiaries of SATO INTERNATIONAL PTE LTD.
5. SATO POLSKA Sp. z o.o. is a subsidiary of SATO DEUTSCHLAND GmbH.
6. SATO MALAYSIA SDN BHD, SATO AUTO-ID (THAILAND) CO., LTD. and SATO SHANGHAI CO., LTD are subsidiaries of SATO ASIA PACIFIC PTE LTD.
7. The Company established SATO VIETNAM CO., LTD. in June 2004 and plans to begin construction of its facilities in June 2005.

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 distribution of profits is to “provide value to four parties” – shareholders, society, the Company, and its employees.

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.

Reflecting stronger financial performance, the Company will increase its interim dividend by one yen per share to 14 yen per share for the interim period ended September 30, 2004.

3. Management indices

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

4. 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 a total solutions business that uses auto-recognition technology (bar codes, 2-D bar codes and IC tags/labels, etc.) to exchange information between data processing systems and distribution workplaces. The Company is deploying this business model on a worldwide basis, with the aim of expanding sales and strengthening its competitiveness in overseas markets.

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.

c. Incremental small change 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, incremental change 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 requirements 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.

5. 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.

- “Door opener” through non-contact radio frequency technology (RFID)

The Sato brand is making inroads in global auto-recognition markets, as attested to by the number of world-class retailers, including Walmart of the United States and the METRO Group of Germany, that are testing the Company’s products. With the doors being opened in this way, the Sato group will continue its efforts to increase overseas sales by marketing not only its RFID technology but also its other products: printers, labelers, and solutions capabilities.

- 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
SATO INTERNATIONAL PTE LTD which coordinates the Company's overseas business, has established a dedicated firmware 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
Through an aggressive introduction of new products in both domestic and overseas markets, the Company is spurring the creation of new demand.
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 RFID technology are attracting significant interest in the market. 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.

6. 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 implementing steps to strengthen the management oversight function of the Board of Directors.

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.

And, in a step aimed at strengthening the management oversight function of the Board of Directors, shareholders at the 54th Ordinary General Meeting of Shareholders in 2004 approved the addition of two new outside directors, bringing the total number of outside directors to four.

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, as a means of strengthening activities in this arena, the major functions of this committee were incorporated into the activities of a newly created CSR Office. 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 operation and Cash flows

1. Results of operation

a. Summary of financial performance

Sato Corporation once again recorded an all-time sales high in the interim period ended September 30, 2004, while also setting records in ordinary profit and net income.

In the domestic market, as a result of the introduction from April 1, 2004 of new rules mandating the labeling of all products to show the total value of consumption tax per item, demand from retail industry customers for printers, hand labelers, and supply products remained strong until the middle of May, following the trend begun toward the end of the previous term.

In the medical care field, hospitals and clinics face the urgent need to take steps to prevent administrative and identification errors and reduce clerical personnel costs. This has led to steadily rising demand for patient identification systems aimed at raising the precision and efficiency of clerical operations.

In the food industry, demand for traceability systems continued to be firm. Capital investment during the period was vigorous across the entire Japanese industrial spectrum, thanks to which growth was particularly strong in demand for automatic data recognition systems utilizing sophisticated bar code products, including those employing 2-D bar codes

capable of interfacing with electronic data interchange (EDI) systems. The Company thus enjoyed brisk business during the interim period, supported by strong demand from customers in almost every industrial sector.

In overseas markets, the Company took part in radio frequency identification (RFID) projects conducted by Walmart as well as by the U.S. Department of Defense. The Company took advantage of the former project to promote our products to various manufacturers among Walmart's extensive list of suppliers. Our success in concluding a printer supply contract with a major U.S. drugstore chain in fiscal 2003 also acted as a springboard toward expanding our sales to medical institutions during the interim period.

In Europe, the Company participated in the Future Store Initiative of the German retailing company METRO Group (being the first Japanese company to be appointed a Gold Partner, the second-highest rank of partner after Platinum Partner) in July 2004 and talks are proceeding smoothly with suppliers of merchandise to the METRO Group. In the United Kingdom, we were successful in the previous term in selling a price-markdown management system to a supermarket chain, and this has led to further growth in demand for products of this kind.

In Asia, talks on several kind of businesses have been proceeding at a brisk pace with state-owned companies in China, and with Japanese subsidiaries in Singapore, Malaysia, and Thailand. While continuing to make efforts to expand our sales overseas, the Company is also building a supply system whereby our consumables ("Supply Products") can be efficiently provided to customers by our overseas sales companies. In Singapore and Thailand, the Company has increased the number of production lines for label printers at the supply products manufacturing plants adjacent to our sales companies in these two countries, while in Poland and Malaysia the Company constructed two new printing device manufacturing plants, thereby enhancing our overall supply network.

The Sato Group has decided to build a mechatronics product manufacturing plant on the outskirts of Hanoi in Vietnam. This will serve as our No. 2 overseas supply center for mechatronics products after the facilities in Malaysia, and preparations are well under way, with purchase of the site being made in June 2004. Construction should be completed by June 2005.

As a result of the foregoing, total net sales for the interim period came to ¥30,786 million, an increase of 8.8% over the same period of the previous year. Operating income amounted to ¥2,632 million, up 6.5%, ordinary profit rose 12.5% to ¥2,635 million, and net income edged up 1.8% to ¥1,437 million.

Segment results were as follows:

(a) Mechatronic products

The segment posted operating income of ¥1,456 million (+9.4%) on net sales of ¥13,896 million (+8.3%).

(b) Supply products

The segment posted operating income of ¥1,175 million (+3.0%) on net sales of ¥16,890 million (+9.3%).

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

Continued growth in demand for the Company's products is forecast in the domestic market, most notably in the medical care and food fields. In the area of pharmaceutical product control systems, for which strong demand is expected over the near term, potential demand is extremely likely to be translated into actual orders, in view of the fact that both Ministry of Health, Labour and Welfare and individual major state-run hospitals are actively pushing for the introduction of such systems. In the food processing sector, increased demand is expected in the wake of the enforcement from December 2004 of a new law on traceability for beef products.

In addition, supermarkets and other volume retailers are expected to be particularly keen to introduce price-markdown management systems and EDI systems for managing goods distribution. The Sato Group intends to make the most of its unique strengths – including its ability to handle small-lot orders, its lineup of specialty equipment not matched by any competitor, and its excellent design and proposal capabilities – to respond to the wide-ranging needs of customers for products that embody the concept of the ubiquitous computing network, which is certain to become an ever more important part of society from here on.

On overseas markets, the Company is utilizing sales promotion campaigns for the RFID systems as a “door opener” to new customers in the United States and mainland Europe, while in Britain, the Company is extending our marketing activities in the field of price-markdown management systems to all supermarket chains. In Asia, the Company is making efforts to carve out new markets for the products, with particular focus on Southeast Asia. In these ways, in each region of the world, the Company is promoting those “DCS & Labeling” products that are judged to most closely meet the particular needs of that region, and is investing in the creation of a marketing infrastructure that can support the achievement of our sales targets.

Through these measures, the Sato Group forecasts business performance for fiscal 2004, on a consolidated basis, as follows: net sales at ¥62,100 million (up 5.5%), operating income at ¥6,060 million (up 10.0%), ordinary profit at ¥6,060 million (up 16.5%), and net income at ¥3,500 million (up 25.4%).

(Reference data)

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

	Millions of yen	Change (%)
Net sales	62,100	+5.5
Operating income	6,060	+10.0
Ordinary profit	6,060	+16.5
Net income	3,500	+25.4

Segment sales forecasts are given below.

[Product Segment Forecasts]

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

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

2. Cash flows for the interim period ended September 30, 2004

Consolidated cash and cash equivalents (referred to below as “cash”) increased by ¥1,675 million relative to the previous interim period. As of the interim period ended September 30, 2004, cash totaled ¥11,254 million. The major cash flow-related factors for the interim period ended September 30, 2004 are outlined below.

Net cash provided by operating activities

Net cash provided by operating activities amounted to ¥1,311 million. This was mainly due to positive cash flows from income before adjustments for income taxes and from depreciation expenses. A decrease in notes and accounts receivable of ¥533 million was another contributing factor. Significant offsetting factors included an increase in inventories of ¥973 million, and income taxes paid totaling ¥1,411 million.

Net cash used in investing activities

Net cash used in investing activities totaled ¥1,239 million. This was mainly the result of ¥1,083 million expended for the purchase of tangible fixed assets and ¥820 million for the purchase of intangible fixed assets.

This was offset in part by proceeds from sales of investment securities, which generated proceeds of ¥312 million.

Net cash used in financing activities

Net cash used in financing activities amounted to ¥476 million, principally as a result of cash dividend payments totaling ¥469 million.

3. Other risks to business: the impact of the Niigata Chuetsu Earthquake

In the early evening of Saturday, October 23, an earthquake registering 6+ on the Japanese intensity scale struck in the Ojiya district of Nagaoka city in Niigata Prefecture. The Company’s Nagaoka Plant, located in the Sasazaki area, sustained only minimal damage and resumed normal operations on Monday, October 25, as did a number of the Company’s contracted plants. Other contracted facilities within the Nagaoka district gradually resumed operations thereafter. The shortages of productive capacity that arose during this period were covered by work done at contracted plants in other prefectures, primarily Iwate, Saitama and Osaka. As a result, the impact of damage from the earthquake on financial results being forecast for the current term is likely to be insignificant.

In the future, production facilities for supply products will continue to be dispersed countrywide, not only to shorten delivery times to customers but also to lessen the impact of potential damage from natural disasters.

Consolidated balance sheet

Millions of yen	September 30, 2003	%	September 30, 2004	%	March 31, 2004	%
Current assets						
Cash	9,629		11,304		11,562	
Notes and accounts receivable	12,943		13,806		14,112	
Marketable securities	131		50		50	
Inventories	6,143		6,808		5,700	
Deferred credit	1,275		500		851	
Deferred taxes	687		411		498	
Others	405		515		366	
Allowance for doubtful accounts	(77)		(61)		(57)	
Total current assets	31,138	65.9	33,334	65.8	33,084	66.6
Fixed assets						
Tangible fixed assets						
Buildings and structures	8,622		8,691		8,589	
Accumulated depreciation	3,526		3,859		3,689	
	5,096		4,832		4,900	
Machinery, equipment and delivery equipment	6,158		6,873		6,672	
Accumulated depreciation	4,470		4,777		4,633	
	1,687		2,096		2,038	
Tools, furniture and fixtures	3,512		3,781		3,433	
Accumulated depreciation	2,691		2,784		2,628	
	820		996		804	
Land	5,000		4,996		5,000	
Construction in progress	11		252		34	
	12,616	26.8	13,173	26.0	12,778	25.7
Intangible fixed assets						
Leaseholds	208		471		195	
Others	1,041		1,856		1,603	
	1,249	2.6	2,327	4.6	1,799	3.6
Investments and other assets						
Investment securities	253		46		340	
Long-term loans	54		61		37	
Guarantee deposits	704		687		724	
Deferred taxes	505		359		263	
Others	826		746		753	
Allowance for doubtful accounts	(108)		(100)		(106)	
	2,236	4.7	1,800	3.6	2,014	4.1
Total fixed assets	16,103	34.1	17,301	34.2	16,592	33.4
Total assets	47,241	100.0	50,636	100.0	49,676	100.0

Millions of yen	September 30, 2003	%	September 30, 2004	%	March 31, 2004	%
Current liabilities						
Notes and accounts payable	4,375		5,044		4,908	
Short-term borrowings	374		414		332	
Accounts payable - other	6,553		7,277		7,211	
Income taxes payable	865		1,256		1,407	
Reserve for bonuses	925		453		458	
Notes payable - plant and equipment	93		238		362	
Others	2,189		2,437		2,684	
	<u>15,376</u>	32.5	<u>17,123</u>	33.8	<u>17,365</u>	34.9
Long-term liabilities						
Reserve for employees' retirement benefits	461		112		29	
Reserve for directors' retirement allowances	270		267		270	
Others	199		213		221	
	<u>931</u>	2.0	<u>593</u>	1.2	<u>521</u>	1.1
Total liabilities	<u>16,308</u>	34.5	<u>17,717</u>	35.0	<u>17,887</u>	36.0
Minority interest in consolidated subsidiaries						
	0	0.0	-	-	4	0.0
Shareholders' equity						
Common stock	6,331	13.4	6,331	12.5	6,331	12.7
Capital reserves	5,790	12.3	5,790	11.5	5,790	11.7
Retained earnings	21,071	44.6	23,008	45.4	22,041	44.4
Unrealized gains or losses on other securities	43	0.1	5	0.0	106	0.2
Foreign currency translation adjustments	(740)	(1.6)	(663)	(1.3)	(922)	(1.9)
Treasury stock	(1,563)	(3.3)	(1,552)	(3.1)	(1,561)	(3.1)
Total shareholders' equity	<u>30,932</u>	65.5	<u>32,919</u>	65.0	<u>31,785</u>	64.0
Total liabilities and shareholders' equity	47,241	100.0	50,636	100.0	49,676	100.0

Consolidated statements of income

Millions of yen	Interim period ended September 30, 2003		Interim period ended September 30, 2004		Year ended March 31, 2004	
		%		%		%
Net sales	28,287	100.0	30,786	100.0	58,862	100.0
Cost of sales	15,411	54.5	16,439	53.4	31,997	54.4
Gross profit on sales	12,875	45.5	14,347	46.6	26,865	45.6
Selling, general and administrative expenses	10,404	36.8	11,715	38.1	21,358	36.2
Operating income	2,471	8.7	2,632	8.5	5,506	9.4
Non operating income						
Interest income	11		15		23	
Dividend income	3		3		5	
Gain on sale of investment securities	15		-		50	
Foreign exchange gains	-		73		-	
Valuation gain from swap transaction	31		-		102	
Commissions and fees	4		4		13	
Rental income	-		25		4	
Others	49		41		119	
	116	0.5	162	0.6	320	0.5
Non operating expenses						
Interest expenses	12		27		35	
Loss on disposal of inventories	25		4		90	
Foreign exchange loss	176		-		406	
Valuation loss on swap transaction	-		42		-	
Others	31		85		93	
	246	0.9	159	0.5	626	1.1
Ordinary profit	2,341	8.3	2,635	8.6	5,200	8.8
Extraordinary gains						
Gain on sales of fixed assets	0		0		0	
Gain on reversal of allowance for retirement benefits	-		-		531	
Gain on sale of investment securities	20		188		21	
Others	-		11		-	
	21	0.1	200	0.6	553	1.0
Extraordinary losses						
Loss on business restructuring	-		52		211	
Loss on disposal of fixed assets	9		12		24	
Loss on valuation of investment securities	8		-		5	
Others	1		24		1	
	20	0.1	88	0.3	242	0.4
Income before adjustments for income taxes	2,342	8.3	2,746	8.9	5,511	9.4
Corporate, inhabitants and enterprise taxes	1,008		1,259		2,411	
Deferred taxes	(79)		56		314	
	929	3.3	1,316	4.2	2,726	4.7
Minority interest in income of consolidated subsidiaries	0	0.0	6	0.0	4	0.0
Net income	1,412	5.0	1,437	4.7	2,790	4.7

Consolidated statements of retained earnings

Millions of yen	Interim period ended September 30, 2003	Interim period ended September 30, 2004	Year ended March 31, 2004
Capital reserves			
Capital reserves at beginning of term	4,214	5,790	4,214
Increase in capital reserves			
Increase due to conversion of convertible bonds	1,575	-	1,575
Gain on sale of treasury stock	-	0	0
	1,575	0	1,575
Capital reserves at end of term	5,790	5,790	5,790
Retained earnings			
Retained earnings at beginning of term	20,069	22,041	20,069
Increase in retained earnings			
Net income	1,412	1,437	2,790
	1,412	1,437	2,790
Decrease in retained earnings			
Dividends - total	338	470	746
Directors' bonuses	71	-	71
	410	470	818
Retained earnings at end of term	21,071	23,008	22,041

Consolidated statements of cash flows

Millions of yen	Interim period ended September 30, 2003	Interim period ended September 30, 2004	Year ended March 31, 2004
Net cash provided by operating activities			
Income before adjustments for income taxes	2,342	2,746	5,511
Depreciation expenses	695	755	1,444
Loss on valuation of investment securities	8	-	5
Loss(gain) on sales of investment securities	(20)	(188)	(21)
Loss on disposal of fixed assets	9	12	24
Loss on business restructuring	-	52	211
Increase (decrease) in allowance for doubtful accounts	4	(3)	(16)
Increase (decrease) in reserve for bonuses	49	(57)	(366)
Increase (decrease) in reserve for directors' retirement allowances	(48)	(2)	(48)
Increase (decrease) in reserve for retirement benefits	105	83	(327)
Interest and dividends received	(15)	(18)	(29)
Interest expenses	12	27	35
Foreign exchange loss (gain)	(209)	(5)	(176)
Gain on sales of tangible fixed assets	(0)	(0)	(0)
Decrease (increase) in notes and accounts receivable	(887)	533	(2,111)
Decrease (increase) in inventories	(395)	(973)	(5)
Decrease (increase) in prepaid expenses	(49)	(46)	53
Decrease (increase) in accounts receivable - others	(487)	44	(30)
Increase (decrease) in notes and accounts payable	460	(76)	1,071
Directors' bonuses	(71)	-	(71)
Others	335	(96)	1,088
	1,837	2,784	6,237
Interest and dividends received	15	18	29
Interest paid	(12)	(27)	(35)
Payments related to losses on business restructuring	-	(52)	(127)
Income taxes paid	(1,102)	(1,411)	(1,963)
	737	1,311	4,141
Net cash used in investing activities			
Increase in time deposits	(100)	(100)	(100)
Decrease in time deposits	100	100	100
Purchase of tangible fixed assets	(439)	(1,083)	(1,091)
Proceeds from sales of tangible fixed assets	15	347	64
Purchase of intangible fixed assets	(261)	(820)	(908)
Proceeds from sales of investment securities	74	312	98
Others	(53)	4	187
	(663)	(1,239)	(1,649)
Net cash used in financing activities			
Increase (decrease) in short-term borrowings	109	(16)	68
Payments for redemption of convertible bonds	(23)	-	(23)
Proceeds from sales of treasury stock	-	14	7
Purchase of treasury stock	(23)	(5)	(29)
Cash dividend paid	(338)	(469)	(745)
	(275)	(476)	(721)
Effect of exchange rate changes on cash and cash equivalents	(80)	146	(119)
Net increase in cash and cash equivalents	(281)	(258)	1,651
Cash and cash equivalents at beginning of term	9,861	11,512	9,861
Cash and cash equivalents at end of term	9,579	11,254	11,512

Segment information

Business segment information

Millions of yen	Mechatronic products business	Supply products business	Total	Eliminations	Consolidated
Interim period ended September 30, 2003					
Sales					
External customer sales	12,830	15,457	28,287	-	28,287
Intersegment transactions and eliminations	-	-	-	(-)	-
	12,830	15,457	28,287	(-)	28,287
Operating expenses	11,499	14,316	25,816	(-)	25,816
Operating income	1,330	1,140	2,471	(-)	2,471
Interim period ended September 30, 2004					
Sales					
External customer sales	13,896	16,890	30,786	-	30,786
Intersegment transactions and eliminations	-	-	-	(-)	-
	13,896	16,890	30,786	(-)	30,786
Operating expenses	12,439	15,714	28,154	(-)	28,154
Operating income	1,456	1,175	2,632	(-)	2,632
Year ended March 31, 2004					
Sales					
External customer sales	26,670	32,192	58,862	-	58,862
Intersegment transactions and eliminations	-	-	-	(-)	-
	26,670	32,192	58,862	(-)	58,862
Operating expenses	23,660	29,696	53,356	(-)	53,356
Operating income	3,010	2,495	5,506	(-)	5,506

(Note)

The main products of each business segment are as follows:

Mechatronic products business: electronic printers, hand labelers

Supply products business: labels, tags and carbon ribbons for electronic printers; labels for hand labelers

Geographical segment information

Millions of yen	Japan	North America	Europe	Asia	Total	Eliminations	Consolidated
Interim period ended September 30, 2003							
Sales							
External customers	23,294	1,603	2,541	847	28,287	-	28,287
Intersegment sales	1,297	1	137	4,984	6,422	(6,422)	-
	24,592	1,605	2,679	5,832	34,710	(6,422)	28,287
Operating expenses	22,100	1,656	2,919	5,542	32,219	(6,403)	25,816
Operating income	2,491	(51)	(240)	290	2,490	(18)	2,471
Interim period ended September 30, 2004							
Sales							
External customers	25,271	1,924	2,480	1,110	30,786	-	30,786
Intersegment sales	1,198	15	61	5,128	6,404	(6,404)	-
	26,470	1,940	2,542	6,238	37,191	(6,404)	30,786
Operating expenses	23,729	1,966	2,974	6,102	34,772	(6,617)	28,154
Operating income	2,740	(26)	(431)	136	2,418	(213)	2,632
Year ended March 31, 2004							
Sales							
External customers	48,682	3,418	5,064	1,697	58,862	-	58,862
Intersegment sales	2,548	11	204	9,541	12,306	(12,306)	-
	51,230	3,429	5,268	11,239	71,169	(12,306)	58,862
Operating expenses	45,332	3,546	6,126	10,852	65,858	(12,502)	53,356
Operating income	5,898	(116)	(857)	386	5,310	196	5,506

(Notes)

- Regions are categorized on the basis of geographical proximity.
- Outside Japan, the countries belonging to the various regions are as follows:
 - North America: USA
 - Europe: Germany, UK, Poland, Belgium
 - Asia: Malaysia, Singapore, Thailand, China

Overseas sales

Millions of yen	Interim period ended September 30, 2003		Interim period ended September 30, 2004		Year ended March 31, 2004	
	Overseas sales	As % of net sales	Overseas sales	As % of net sales	Overseas sales	As % of net sales
North America	1,603	5.7	1,924	6.2	3,418	5.8
Europe	2,541	9.0	2,480	8.1	5,064	8.6
Asia, others	847	3.0	1,110	3.6	1,697	2.9
	4,992	17.7	5,515	17.9	10,180	17.3
Consolidated sales	28,287		30,786		58,862	

(Notes)

- Regions are categorized on the basis of geographical proximity.
- Outside Japan, the countries belonging to the various regions are as follows:
 - North America: USA, Canada
 - Europe: Germany, UK, France, Italy, etc.
 - Asia, others: Malaysia, Singapore, Thailand, China, Australia, etc.
- Overseas revenues are composed of sales made in countries and regions other than Japan by SATO CORPORATION and its consolidated subsidiaries.

Interim Kessan Report for the March 2005 Term (Non-consolidated)

November 15, 2004

SATO CORPORATION

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

Shares traded: TSE

Location of headquarters: Tokyo

Executive position of legal representative: Masanori Otsuka, President and COO,
 Representative Corporate Executive Officer

Please address all communications to: Toshiro Umeda, Senior Executive Officer,
 General Manager, Corporate Planning &
 Administration Division
 Phone: (03) 5789-2500

Date of Board of Directors' meeting for approval
 of financial results: November 12, 2004

Date of first payment of interim dividends: December 13, 2004

Adoption of system of interim dividends: Yes

Application of unit trading system: Yes (100 shares per unit)

3. Non-consolidated operating results (April 1, 2004 to September 30, 2004)

(1) Non-consolidated financial results

	Net sales		Operating income		Ordinary profit	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
September 30, 2004	26,470	7.6	2,740	10.0	2,900	16.4
September 30, 2003	24,592	5.5	2,491	19.9	2,491	20.7
March 31, 2004	51,230		5,898		5,849	

	Net income		Net income per share
	(Millions of yen)	%	(Yen)
September 30, 2004	1,838	20.1	58.59
September 30, 2003	1,530	37.8	50.79
March 31, 2004	3,673		119.45

(Notes)

- Average number of outstanding shares during the term (non-consolidated):
 September 2004 term: 31,372,491 shares September 2003 term: 30,126,787 shares
 March 2004 term: 30,750,790 shares
- Changes in accounting methods: Yes
- The percentages shown next to net sales, operating income, ordinary profit and net income represent year-on-year changes.

(2) Dividends

	Interim dividends per share	Annual dividends per share
	(Yen)	(Yen)
September 30, 2004	14.00	-
September 30, 2003	13.00	-
March 31, 2004	-	28.00

(Note)

A year-end dividend in the March 2004 term consists of a special dividend of 1 yen per share commemorating the Company's 10th anniversary of the TSE listing.

(3) Non-consolidated financial position

	Total assets	Shareholders' equity	Equity ratio	Shareholders' equity per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
September 30, 2004	53,036	37,412	70.5	1,192.48
September 30, 2003	49,008	34,336	70.1	1,094.59
March 31, 2004	52,147	36,136	69.3	1,151.96

(Notes)

1. Number of outstanding shares at end of term (non-consolidated):

September 2004 term: 31,374,025 shares September 2003 term: 31,369,583 shares
March 2004 term: 31,370,020 shares

2. Number of treasury stock at end of term:

September 2004 term: 627,144 shares September 2003 term: 631,586 shares
March 2004 term: 631,149 shares

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

	Net sales	Ordinary profit	Net income	Annual dividends per share	
				Term end	
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Yen)	(Yen)
Annual	52,300	5,900	3,450	14.00	28.00

(N.b.) Estimated earnings per share (annual): 109.96 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.

Non-consolidated balance sheet

Millions of yen	September 30, 2003	%	September 30, 2004	%	March 31, 2004	%
Current assets						
Cash	7,708		9,127		8,748	
Notes receivable	3,772		4,005		3,782	
Accounts receivable	7,796		8,546		9,087	
Inventories	3,566		3,530		3,165	
Others	2,009		1,408		1,352	
Allowance for doubtful accounts	(33)		(14)		(25)	
Total current assets	24,821	50.6	26,603	50.2	26,109	50.1
Fixed assets						
Tangible fixed assets						
Buildings	4,160		3,933		4,046	
Machinery and equipment	1,164		1,556		1,501	
Land	5,000		4,996		5,000	
Others	588		723		520	
	10,913	22.3	11,210	21.1	11,069	21.2
Intangible fixed assets	949	1.9	1,644	3.1	1,429	2.7
Investments and other assets						
Capital stock of affiliated companies	8,618		10,510		10,124	
Others	3,818		3,169		3,525	
Allowance for doubtful accounts	(112)		(102)		(109)	
	12,324	25.2	13,578	25.6	13,540	26.0
Total fixed assets	24,187	49.4	26,432	49.8	26,038	49.9
Total assets	49,008	100.0	53,036	100.0	52,147	100.0

Millions of yen	September 30, 2003	%	September 30, 2004	%	March 31, 2004	%
Current liabilities						
Notes payable	1,809		2,011		1,939	
Accounts payable	2,011		2,326		2,320	
Accounts payable - others	6,422		7,028		6,932	
Income taxes payable	885		1,161		1,372	
Reserve for bonuses	869		363		419	
Others	1,740		2,139		2,504	
	<u>13,739</u>	28.0	<u>15,030</u>	28.4	<u>15,489</u>	29.7
Long-term liabilities						
Retirement benefits	461		112		29	
Reserve for directors' retirement allowances	270		267		270	
Others	199		213		221	
	<u>931</u>	1.9	<u>593</u>	1.1	<u>521</u>	1.0
	<u>14,671</u>	29.9	<u>15,623</u>	29.5	<u>16,011</u>	30.7
Shareholders' equity						
Common stock	6,331	12.9	6,331	11.9	6,331	12.1
Capital reserves						
Additional paid-in capital	5,789		5,789		5,789	
Capital reserves - other	0		0		0	
	<u>5,790</u>	11.8	<u>5,790</u>	10.9	<u>5,790</u>	11.1
Retained earnings						
Legal income reserves	474		474		474	
Voluntary reserves - total	19,937		22,271		19,571	
Unappropriated retained earnings	3,323		4,092		5,424	
	<u>23,735</u>	48.5	<u>26,838</u>	50.6	<u>25,470</u>	48.9
Unrealized gains or losses on other securities	43	0.1	5	0.0	106	0.2
Treasury stock	(1,563)	(3.2)	(1,552)	(2.9)	(1,561)	(3.0)
Total shareholders' equity	<u>34,336</u>	70.1	<u>37,412</u>	70.5	<u>36,136</u>	69.3
Total liabilities and shareholders' equity	49,008	100.0	53,036	100.0	52,147	100.0

Non-consolidated statements of income

Millions of yen	Interim period ended September		Interim period ended September		Year ended	
	30, 2003	%	30, 2004	%	March 31, 2004	%
Net sales	24,592	100.0	26,470	100.0	51,230	100.0
Cost of sales	13,789	56.1	14,636	55.3	28,504	55.6
Gross profit on sales	10,802	43.9	11,833	44.7	22,726	44.4
Selling, general and administrative expenses	8,310	33.8	9,092	34.4	16,827	32.9
Operating income	2,491	10.1	2,740	10.4	5,898	11.5
Non operating income	173	0.7	210	0.8	295	0.6
Non operating expenses	173	0.7	50	0.2	344	0.7
Ordinary profit	2,491	10.1	2,900	11.0	5,849	11.4
Extraordinary gain	20	0.1	199	0.8	553	1.1
Extraordinary loss	18	0.1	19	0.1	25	0.1
Net income before taxes	2,493	10.1	3,081	11.6	6,377	12.4
Corporate, inhabitants and enterprise taxes	953		1,197		2,338	
Deferred taxes	9		45		365	
	963	3.9	1,243	4.7	2,704	5.2
Net income	1,530	6.2	1,838	6.9	3,673	7.2
Retained earnings brought forward from previous year	1,793		2,253		1,793	
Reversal of provision for tax effects	-		-		365	
Interim dividends	-		-		407	
Unappropriated retained earnings	3,323		4,092		5,424	