

# First Quarter Kessan Report for the March 2005 Term (Consolidated)

August 6, 2004

## SATO CORPORATION

Company code number: 6287  
 (URL <http://www.sato.co.jp/>)  
 Shares traded: TSE  
 Executive position of legal representative: Masanori Otsuka, President and COO,  
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### 1. Statements regarding the preparation, etc. of quarterly financial information

- (1) Use of simplified accounting methods: Yes  
 - The Company calculates corporate and other taxes by estimating annual rates of taxation based on effective statutory tax rates.
- (2) Changes in accounting methods: None
- (3) Changes in scope of consolidation or in companies accounted for under the equity method: None

### 2. Financial status and operating results for the first quarter of the year to March 31, 2005 (April 1, 2004 to June 30, 2004)

#### (1) Consolidated financial results

	Net sales		Operating income		Ordinary profit	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
June 30, 2004	15,442	8.8	1,508	13.2	1,579	16.8
June 30, 2003	14,198	6.7	1,332	28.6	1,352	46.9
March 31, 2004	58,862		5,506		5,200	

	Net income (current term)		Net income per share (current term)	Net income per share, fully diluted (current term)
	(Millions of yen)	%	(Yen)	(Yen)
June 30, 2004	969	36.5	30.89	30.34
June 30, 2003	709	44.4	23.79	22.62
March 31, 2004	2,790		90.73	88.92

(Note)

The percentages shown alongside net sales, operating income, etc. indicate changes from the year-earlier quarter.

## **Summary of Results**

Our efforts in the domestic market generated sales that outpaced the strong performance of the year-earlier quarter. Demand relating to tax-inclusive price labeling continued through April and we benefited from increasing demand for automatic identification technologies generally, particularly from users in medical care and food-related fields.

Overseas, sales increased on the back of strong gains in North America. The Company continued to promote its radio frequency identification (RFID) products (tags, labels and other non-contact technologies), which it sees becoming a significant pillar of its growth in the future. After focusing on the European market last year, the Company began holding RFID symposia in North America and Asia and participating in RFID-related exhibitions in those markets. It is currently involved in negotiations with a large number of successful international companies, including such major retailers as Wal-Mart and METRO AG, to which it has provided printers for demonstration tests.

As a result of these efforts, the Sato Group reported net sales of ¥15,442 million (+8.8%), operating income of ¥1,508 million (+13.2%) and ordinary profit of ¥1,579 million (+16.8%). Net income for the quarter was ¥969 million (+36.5%).

### **(2) Consolidated financial position**

	Total assets	Shareholders' equity	Equity ratio	Shareholders' equity per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
June 30, 2004	50,074	32,350	64.6	1,031.19
June 30, 2003	46,965	27,628	58.8	925.89
March 31, 2004	49,676	31,785	64.0	1,013.23

### **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)
June 30, 2004	958	(488)	(405)	11,616
June 30, 2003	392	(294)	(289)	9,678
March 31, 2004	4,141	(1,649)	(721)	11,512

**Changes in financial condition** (all comparisons are with the end of the previous fiscal year)

Total assets increased by ¥398 million and shareholders' equity by ¥565 million, bringing the equity ratio to 64.6%.

In the first quarter, cash and cash equivalents (hereinafter, "cash") increased by ¥104 million to ¥11,616 million.

A summary of the major components of cash flow in the first quarter is as follows.

***Net cash provided by operating activities:***

Net cash provided by operating activities amounted to ¥958 million, attributed principally to the following: ¥1,700 million in income before adjustments for income taxes; a ¥331 million increase in depreciation expenses; a ¥244 million increase in inventories; and a ¥1,411 million decrease in income taxes paid.

***Net cash used in investing activities:***

Net cash used in investing activities amounted to ¥488 million. This was mainly the result of: ¥401 million expended for the purchase of tangible fixed assets: ¥328 million for the purchase of intangible fixed assets; and proceeds from sales of investment securities amounting to ¥176 million.

***Net cash used in financing activities:***

Net cash used in financing activities amounted to ¥405 million, principally for the payment of cash dividends which totaled ¥435 million.

**[Reference data]**

**Non-consolidated quarterly results (April 1, 2004 to June 30, 2004)**

	Net sales		Operating income		Ordinary profit	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
June 30, 2004	13,337	8.8	1,565	17.4	1,625	22.0
June 30, 2003	12,259	5.9	1,333	26.5	1,333	30.8
March 31, 2004	51,230		5,898		5,849	

	Net income		Total assets	Shareholders' equity
	(Millions of yen)	%	(Millions of yen)	(Millions of yen)
June 30, 2004	1,013	34.0	52,824	36,622
June 30, 2003	756	28.0	48,811	30,417
March 31, 2004	3,673		52,147	36,136

### 3. Consolidated forecasts for March 2005 term (April 1, 2004 to March 31, 2005)

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

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

#### [Reference data]

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

	Net sales	Ordinary profit	Net income
	(Millions of yen)	(Millions of yen)	(Millions of yen)
Interim period	25,900	2,750	1,600
Annual	52,300	5,900	3,450

(N.b.) Estimated earnings per share (annual): 109.97 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.*

#### **Qualitative information regarding forecasts**

In the second quarter, we expect demand to increase in a variety of sectors in the domestic market and will be taking every step necessary to exploit these opportunities. We will also be introducing some notable new products: the “Nurse Support System,” which prevents excessive dosages and mistaken drug administration through proper patient identification; and “Trace eye,” which combines a number of traceability systems into a single package for the food industry. We expect these to allow us to work with many more potentially new customers on solutions to their needs for automatic identification.

In Europe and America, we foresee interest growing among new clients for our RFID systems. While seeking to bring these deals to a successful conclusion, we will continue to work with others who are expressing an interest in our previously introduced mark-down systems and to increase sales of supply products. Against this background, we will not be changing our forecasts for sales and earning announced at the beginning of the term for both the six-month period ending September and the full year.

## Consolidated balance sheet (Summary)

Millions of yen	June 30, 2004	June 30, 2003	Increase/decrease %	March 31, 2004
<b>Current assets</b>				
Cash	11,666	9,727	1,938	11,562
Notes and accounts receivable	14,210	12,801	1,409	14,112
Marketable securities	50	50	0	50
Inventories	5,994	6,344	(349)	5,700
Deferred credit	779	808	(29)	851
Others	848	1,019	(171)	864
Allowance for doubtful accounts	(65)	(78)	12	(57)
Total current assets	33,484	30,673	2,810	9.2 33,084
<b>Fixed assets</b>				
<b>Tangible fixed assets</b>				
Buildings and structures	4,854	5,183	(328)	4,900
Machinery, equipment and delivery equipment	2,016	1,763	252	2,038
Tools, furniture and fixtures	865	883	(17)	804
Land	5,017	5,000	16	5,000
Construction in progress	40	7	33	34
	12,793	12,837	(43)	(0.3) 12,778
<b>Intangible fixed assets</b>	1,921	1,177	743	63.2 1,799
<b>Investments and other assets</b>				
Investment securities	182	227	(44)	340
Long-term loans	36	55	(18)	37
Guarantee deposits	703	694	8	724
Others	1,060	1,406	(346)	1,017
Allowance for doubtful accounts	(108)	(107)	0	(106)
	1,875	2,276	(401)	(17.6) 2,014
Total fixed assets	16,590	16,291	298	1.8 16,592
<b>Total assets</b>	<b>50,074</b>	<b>46,965</b>	<b>3,109</b>	<b>6.6</b> <b>49,676</b>

Millions of yen	June 30, 2004	June 30, 2003	Increase/decrease %	March 31, 2004
<b>Current liabilities</b>				
Notes and accounts payable	5,140	3,809	1,330	4,908
Short-term borrowings	375	344	31	332
Convertible bonds redeemable within 1 year	-	3,126	(3,126)	-
Accounts payable - other	7,416	6,448	968	7,211
Income taxes payable	730	625	104	1,407
Reserve for bonuses	645	900	(254)	458
Others	2,867	3,155	(287)	3,047
	<u>17,175</u>	<u>18,408</u>	<u>(1,233)</u>	<u>(6.7)</u>
<b>Long-term liabilities</b>				
Reserve for employees' retirement benefits	73	407	(333)	29
Reserve for directors' retirement allowances	267	318	(51)	270
Others	207	199	8	221
	<u>548</u>	<u>925</u>	<u>(376)</u>	<u>(40.7)</u>
Total liabilities	<u>17,723</u>	<u>19,334</u>	<u>(1,610)</u>	<u>(8.3)</u>
Minority interest in consolidated subsidiaries	-	2	(2)	-
<b>Shareholders' equity</b>				
Common stock	6,331	4,778	1,552	32.5
Capital reserves	5,795	4,239	1,556	36.7
Retained earnings	22,540	20,453	2,087	10.2
Unrealized gains or losses on other securities	43	(9)	52	-
Foreign currency translation adjustment	(803)	(279)	(523)	187.1
Treasury stock	(1,557)	(1,554)	(2)	0.2
Total shareholders' equity	<u>32,350</u>	<u>27,628</u>	<u>4,722</u>	<u>17.1</u>
<b>Total liabilities and shareholders' equity</b>	<b><u>50,074</u></b>	<b><u>46,965</u></b>	<b><u>3,109</u></b>	<b><u>6.6</u></b>

## Consolidated statements of income (Summary)

Millions of yen	3 months ended June 30, 2004	3 months ended June 30, 2003	Increase/decrease	12 months ended March 31, 2004
			%	
<b>Net sales</b>	15,442	14,198	1,243	8.8
<b>Cost of sales</b>	8,273	7,697	575	7.5
Gross profit on sales	7,168	6,501	667	10.3
<b>Selling, general and administrative expenses</b>	5,659	5,168	490	9.5
Operating income	1,508	1,332	176	13.2
<b>Non operating income</b>				
Interest income	6	6	0	23
Dividend income	3	3	0	5
Foreign exchange gains	83	29	54	-
Others	33	10	23	290
	126	49	76	154.6
<b>Non operating expenses</b>				
Interest expenses	10	6	3	35
Foreign exchange loss	-	-	-	406
Others	45	22	22	184
	55	29	25	87.7
Ordinary profit	1,579	1,352	227	16.8
<b>Extraordinary gains</b>	124	0	124	553
<b>Extraordinary losses</b>	3	7	(4)	(50.6)
Income before adjustments for income taxes	1,700	1,344	355	26.5
Taxes	735	634	100	15.9
Minority interest in income of consolidated subsidiaries	4	(0)	4	-
<b>Net income</b>	969	709	259	36.5

## Consolidated statements of cash flows (Summary)

Millions of yen	3 months ended June 30, 2004	3 months ended June 30, 2003	12 months ended March 31, 2004
<b>Net cash provided by operating activities</b>			
Income before adjustments for income taxes	1,700	1,344	5,511
Depreciation expenses	331	342	1,444
Loss on valuation of investment securities	-	-	5
Gain on sales of investment securities	(124)	-	(21)
Gain on sales of marketable securities	-	-	(50)
Loss on disposal of fixed assets	2	5	24
Loss on business restructuring	-	-	211
Gain on sales of tangible fixed assets	-	0	0
Loss on sales of tangible fixed assets	1	0	-
Increase (decrease) in allowance for doubtful accounts	9	2	(16)
Increase (decrease) in reserve for bonuses	135	22	(366)
Increase (decrease) in reserve for directors' retirement allowances	(3)	0	(48)
Reserve for retirement benefits	44	50	(327)
Interest and dividends received	(9)	(10)	(29)
Interest expenses	10	6	35
Foreign exchange loss and gain	37	15	(176)
Decrease (increase) in notes and accounts receivable	208	(520)	(2,111)
Decrease (increase) in inventories	(244)	(412)	(5)
Decrease (increase) in prepaid expenses	(55)	(29)	53
Decrease (increase) in accounts receivable - others	31	8	(30)
Increase (decrease) in notes and accounts payable	164	(305)	1,071
Directors' bonuses	-	(71)	(71)
Others	129	907	1,138
	<u>2,370</u>	<u>1,355</u>	<u>6,237</u>
Payments related to losses on business restructuring	-	-	(127)
Interest and dividends received	9	10	29
Interest paid	(10)	(6)	(35)
Income taxes paid	(1,411)	(966)	(1,963)
	<u>958</u>	<u>392</u>	<u>4,141</u>
<b>Net cash used in investing activities</b>			
Increase in time deposits	-	-	(100)
Decrease in time deposits	-	-	100
Payments for investment in securities	-	-	(396)
Proceeds from sales of marketable securities	-	-	447
Proceeds from sales of investment securities	176	-	98
Purchase of tangible fixed assets	(401)	(280)	(1,091)
Proceeds from sales of tangible fixed assets	57	0	64
Purchase of intangible fixed assets	(328)	(124)	(908)
Proceeds from capital issuance to minority shareholders	-	-	8
Others	7	110	128
	<u>(488)</u>	<u>(294)</u>	<u>(1,649)</u>
<b>Net cash used in financing activities</b>			
Increase (decrease) in short-term borrowings	19	42	68
Payments for redemption of convertible bonds	-	-	(23)
Proceeds from sales of treasury stock	7	-	7
Purchase of treasury stock	2	(14)	(29)
Cash dividend paid	(435)	(318)	(745)
	<u>(405)</u>	<u>(289)</u>	<u>(721)</u>
Effect of exchange rate changes on cash and cash equivalents	39	8	(119)
Net increase (decrease) in cash and cash equivalents	<u>103</u>	<u>(183)</u>	<u>1,651</u>
Cash and cash equivalents at beginning of year	11,512	9,861	9,861
Cash and cash equivalents at end of year	<u>11,616</u>	<u>9,678</u>	<u>11,512</u>



## 4. Segment information

### Business segment information

Millions of yen	Mechatronic product business	Supply product business	Total	Eliminations	Consolidated
<b>3 months ended June 30, 2004</b>					
Sales					
External customer sales	6,712	8,729	15,442	( - )	15,442
Intersegment transactions and eliminations	-	-	-	( - )	-
	6,712	8,729	15,442	( - )	15,442
Operating expenses	5,831	8,102	13,933	( - )	13,933
Operating income	880	627	1,508	( - )	1,508
<b>3 months ended June 30, 2003</b>					
Sales					
External customer sales	6,296	7,902	14,198	( - )	14,198
Intersegment transactions and eliminations	-	-	-	( - )	-
	6,296	7,902	14,198	( - )	14,198
Operating expenses	5,534	7,332	12,866	( - )	12,866
Operating income	762	569	1,332	( - )	1,332
<b>12 months ended March 31, 2004</b>					
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:

The mechatronic product business: electronic bar code printers, hand labelers

The supply product business: IC tags/labels, labels, tags, tickets, ribbons, MC-cards

## Geographical segment information

Millions of yen	Japan	North America	Europe	Asia	Total	Eliminations	Consolidated
<b>3 months ended June 30, 2004</b>							
Sales							
External customers	12,807	967	1,248	418	15,442	-	15,442
Intersegment sales	530	9	24	2,453	3,017	(3,017)	-
	13,337	977	1,273	2,871	18,460	(3,017)	15,442
Operating expenses	11,772	987	1,482	2,824	17,066	(3,132)	13,933
Operating income (loss)	1,565	(10)	(209)	47	1,393	114	1,508
<b>3 months ended June 30, 2003</b>							
Sales							
External customers	11,635	824	1,276	463	14,198	-	14,198
Intersegment sales	624	0	121	2,690	3,438	(3,438)	-
	12,259	825	1,397	3,154	17,637	(3,438)	14,198
Operating expenses	10,926	854	1,510	2,975	16,267	(3,400)	12,866
Operating income (loss)	1,333	(29)	(112)	178	1,369	(37)	1,332
<b>12 months ended March 31, 2004</b>							
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 (loss)	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: U.S.A.
  - Europe: Germany, U.K., Poland, Belgium
  - Asia: Malaysia, Singapore, Thailand, China

## Overseas sales

Millions of yen	3 months ended June 30, 2004		3 months ended June 30, 2003		12 months ended March 31, 2004	
	Overseas sales	As % of net sales	Overseas sales	As % of net sales	Overseas sales	As % of net sales
North America	967	6.3	824	5.8	3,418	5.8
Europe	1,248	8.1	1,276	9.0	5,064	8.6
Asia and others	418	2.7	463	3.3	1,697	2.9
	2,634	17.1	2,563	18.1	10,180	17.3
Consolidated sales	15,442		14,198		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: U.S.A., Canada
  - Europe: Germany, U.K., France, Italy, etc.
  - Asia: Malaysia, Singapore, Thailand, China, Australia, etc.
- Overseas sales are composed of sales made in countries and regions other than Japan by SATO CORPORATION and its consolidated subsidiaries.