

Third Quarter Kessan Report for the March 2005 Term (Consolidated)

February 14, 2005

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

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: Yes
 - The Company applies accounting standards related to impairment of fixed assets.
- (3) Changes in scope of consolidation or in companies accounted for under the equity method: Yes
 - Consolidation (new): 1

2. Financial status and operating results for the third quarter of the year to March 31, 2005 (April 1, 2004 to December 31, 2004)

(1) Consolidated financial results

	Net sales		Operating income		Ordinary profit	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
December 31, 2004	46,773	8.0	4,063	5.8	4,043	7.8
December 31, 2003	43,327	5.5	3,839	1.9	3,752	6.1
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)
December 31, 2004	2,183	0.9	69.58	69.56
December 31, 2003	2,164	19.1	70.85	68.97
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.

Quarterly operating results (percentage changes, year-on-year)

Due to firm demand, net sales in the third quarter grew by approximately 8 percent over the previous year.

In the domestic market, sales of wrist bands with bar codes and of label-issuing systems for internal hospital use were strong to general hospitals. Demand from the manufacturing industry also surged, as companies sought out our products for use in process and materials control systems on production lines. Markdown control systems also continued to make inroads in the market, principally among large retailers. With the coming into force on December 1 of the “Special Measures Law for Control and Communication of Individual Bovine Identification Information” (the so-called Beef Traceability Law), the Company began selling label-issuing systems for beef identification to major super markets and other retailers. Finally, sales of radio frequency identification (RFID) systems have been finding increased acceptance not only the Company’s current major market, which is inventory control systems for the apparel industry, but also various field.

Overseas, negotiations to sell markdown systems to the retailing industry in Britain and to provide RFID systems to the major suppliers of Metro AG in Germany made significant progress. The Company also began the production of labels in Poland, which is now its second base of manufacturing in Europe. In the United States, sales are underlying upward trend and the Company has been making progress in negotiations with a number of major potential customers. In Thailand, orders for labels have been growing rapidly, leading to a commitment to install new printing equipment at our Thai plant in December. The Company also began manufacturing labels in Malaysia in December. Finally, foundation work has been completed for the Company’s plant in Vietnam and the plant is on schedule for June 2005 completion with the facility’s steel frame on its way up.

As a result of this stepped up pace of sales, manufacturing and investment in Japan and other countries, expenses have also increased. Moreover, a number of subcontract factories in the Niigata area have not been able to return to normal production following the Niigata Chuetsu Earthquake, forcing us to execute emergency measures, including transferring production to subcontract factories in other regions.

As a result of the foregoing, the Sato group reported net sales in the third quarter of ¥46,773 million (+8.0%), operating income of ¥4,063 million (+5.8%) and ordinary profit of ¥4,043 million (+7.8%). Net income for the quarter amounted to ¥2,183 million (+0.9%).

(2) Consolidated financial position

	Total assets	Shareholders' equity	Equity ratio	Shareholders' equity per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
December 31, 2004	51,030	32,987	64.6	1,051.46
December 31, 2003	47,592	31,161	65.5	993.35
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)
December 31, 2004	1,076	(2,777)	(1,126)	8,786
December 31, 2003	1,199	(1,336)	(700)	8,913
March 31, 2004	4,141	(1,649)	(721)	11,512

Changes in financial condition

Total assets increased by ¥1,354 million from the end of previous fiscal year. Shareholders' equity increased by ¥1,202 million, bringing the equity ratio to 64.6%.

As of the third quarter ended December 31, 2004, consolidated cash and cash equivalents (hereinafter, "cash") was ¥8,786 million, decreased by ¥127 million relative to the end of previous third quarter.

A summary of the major components of cash flow in the third quarter ended December 31, 2004 is as follows.

Net cash provided by operating activities:

Net cash provided by operating activities amounted to ¥1,076 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 ¥371 million was another contributing factor.

Significant offsetting factors included an increase in notes and accounts receivable of ¥1,157 million, an increase in inventories of ¥1,573 million, and in income taxes paid of ¥2,459 million.

Net cash used in investing activities:

Net cash used in investing activities amounted to ¥2,777 million.

This was mainly the result of acquisition both of tangible and intangible fixed assets.

Net cash used in financing activities:

Net cash used in financing activities amounted to ¥1,126 million, principally for the payment of cash dividends which totaled ¥869 million.

[Reference data]**Non-consolidated quarterly results (April 1, 2004 to December 31, 2004)**

	Net sales		Operating income		Ordinary profit	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
December 31, 2004	40,376	6.9	4,275	6.6	4,360	9.0
December 31, 2003	37,766	6.0	4,008	14.5	4,000	15.7
March 31, 2003	51,230		5,898		5,849	

	Net income		Total assets	Shareholders' equity
	(Millions of yen)	%	(Millions of yen)	(Millions of yen)
December 31, 2004	2,642	10.6	54,907	37,779
December 31, 2003	2,388	22.6	50,334	34,789
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)
Annual	61,500	5,600	3,100

(N.b.) Estimated earnings per share (annual): 98.81 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)
Annual	52,880	5,700	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

Domestically, we are forecasting continued growth of demand in a wide variety of areas, including the medical service providers, food processors, large retailers, the automobile industry, and semiconductor manufacturers. The use of two-dimensional symbologies has been growing in a number of areas that directly touch the general consumer, such as production traceability systems for fresh vegetables and labels that are readable by portable phones.

Overseas, the Company will take steps to expand sales both in the United States, where sales are experiencing a turnaround, and in the fast-growing Asian region. In Europe, the Company has begun dealing successfully with major suppliers of Metro AG and will use this as a start to expand sales in the region, while also bringing to bear the entire group's resources to strengthen its marketing base on the continent.

Accordingly, while we are forecasting an increase in sales for the full term, the improvement in profitability in Europe now appears certain to take more time. In addition, profitability will be impacted by development costs for new products and up-front investments for RFID. In light of these considerations, we are now forecasting the profits shown in the foregoing table; these figures represent rates of growth that are slightly lower than we had anticipated at the beginning of the term.

Consolidated balance sheet (Summary)

Millions of yen	December 31, 2004	December 31, 2003	Increase/decrease %	March 31, 2004
Current assets				
Cash	8,835	8,963	(127)	11,562
Notes and accounts receivable	15,383	14,222	1,161	14,112
Marketable securities	50	137	(87)	50
Inventories	7,286	5,928	1,357	5,700
Deferred credit	549	1,058	(509)	851
Others	980	1,073	(92)	864
Allowance for doubtful accounts	(60)	(69)	9	(57)
Total current assets	33,025	31,313	1,711	33,084
Fixed assets				
Tangible fixed assets				
Buildings and structures	4,783	4,988	(205)	4,900
Machinery, equipment and delivery equipment	2,189	1,812	376	2,038
Tools, furniture and fixtures	1,071	843	228	804
Land	5,614	5,000	614	5,000
Construction in progress	325	46	279	34
	13,985	12,691	1,294	12,778
Intangible fixed assets	2,246	1,602	643	1,799
Investments and other assets				
Investment securities	51	253	(201)	340
Long-term loans	57	53	3	37
Guarantee deposits	660	702	(42)	724
Others	1,100	1,079	20	1,017
Allowance for doubtful accounts	(96)	(104)	7	(106)
	1,772	1,984	(211)	2,014
Total fixed assets	18,004	16,278	1,725	16,592
Total assets	51,030	47,592	3,437	49,676

Millions of yen	December 31, 2004	December 31, 2003	Increase/decrease %	March 31, 2004
Current liabilities				
Notes and accounts payable	5,411	4,564	847	4,908
Short-term borrowings	126	347	(221)	332
Accounts payable - other	8,071	6,877	1,193	7,211
Income taxes payable	775	649	126	1,407
Reserve for bonuses	38	189	(151)	458
Others	2,992	2,821	171	3,047
	<u>17,416</u>	<u>15,450</u>	<u>1,965</u>	<u>12.7</u>
Long-term liabilities				
Reserve for employees' retirement benefits	153	513	(360)	29
Reserve for directors' retirement allowances	267	270	(2)	270
Others	204	193	11	221
	<u>626</u>	<u>977</u>	<u>(351)</u>	<u>(36.0)</u>
Total liabilities	<u>18,042</u>	<u>16,428</u>	<u>1,614</u>	<u>9.8</u>
Minority interest in consolidated subsidiaries	-	2	(2)	-
Shareholders' equity				
Common stock	6,331	6,331	0	0.0
Capital reserves	5,790	5,790	0	0.0
Retained earnings	23,314	21,415	1,899	8.9
Unrealized gains or losses on other securities	9	43	(33)	(78.6)
Foreign currency translation adjustment	(903)	(857)	(45)	5.3
Treasury stock	(1,554)	(1,560)	5	(0.4)
Total shareholders' equity	<u>32,987</u>	<u>31,161</u>	<u>1,825</u>	<u>5.9</u>
Total liabilities and shareholders' equity	<u>51,030</u>	<u>47,592</u>	<u>3,437</u>	<u>7.2</u>
	<u>49,676</u>			

Consolidated statements of income (Summary)

Millions of yen	Nine months ended December 31, 2004	Nine months ended December 31, 2003	Increase/decrease		Year ended March 31, 2004
				%	
Net sales	46,773	43,327	3,445	8.0	58,862
Cost of sales	25,136	23,784	1,351	5.7	31,997
Gross profit on sales	21,637	19,543	2,093	10.7	26,865
Selling, general and administrative expenses	17,574	15,703	1,870	11.9	21,358
Operating income	4,063	3,839	223	5.8	5,506
Non operating income					
Interest income	18	16	1		23
Dividend income	3	4	(0)		5
Others	115	200	(84)		290
	137	221	(83)	(37.7)	320
Non operating expenses					
Interest expenses	40	16	23		35
Foreign exchange loss	24	227	(202)		406
Others	92	65	27		184
	157	309	(151)	(49.0)	626
Ordinary profit	4,043	3,752	291	7.8	5,200
Extraordinary gains					
Gain on sale of investment securities	192	20	172		21
Gain on reversal of allowance for retirement benefits	-	-	-		531
Others	2	-	2		0
	195	20	174		553
Extraordinary losses					
Loss on business restructuring	64	-	64		211
Earthquake-related losses	69	-	69		-
Loss on disposal of fixed assets	14	13	0		24
Others	30	13	16		7
	178	27	150		242
Income before adjustments for income taxes	4,059	3,744	315	8.4	5,511
Taxes	1,883	1,578	305	19.3	2,726
Minority interest in income of consolidated subsidiaries	6	(1)	8	-	4
Net income	2,183	2,164	18	0.9	2,790

Consolidated statements of cash flows (Summary)

Millions of yen	Nine months ended December 31, 2004	Nine months ended December 31, 2003	Year ended March 31, 2004
Net cash provided by operating activities			
Income before adjustments for income taxes	4,059	3,744	5,511
Depreciation expenses	1,205	1,057	1,444
Loss on valuation of investment securities	-	8	5
Gain on sales of investment securities	(192)	(20)	(21)
Gain on valuation of marketable securities	-	(6)	-
Gain on sales of marketable securities	-	(36)	(50)
Loss on disposal of fixed assets	14	13	24
Loss on business restructuring	64	-	211
Losses from earthquake disaster	69	-	-
Gain on sales of tangible fixed assets	(2)	(1)	0
Loss on sales of tangible fixed assets	-	5	-
Increase (decrease) in allowance for doubtful accounts	(9)	(7)	(16)
Increase (decrease) in reserve for bonuses	(470)	(685)	(366)
Increase (decrease) in reserve for directors' retirement allowances	(2)	(48)	(48)
Increase (decrease) in reserve for retirement benefits	124	157	(327)
Interest and dividends received	(22)	(20)	(29)
Interest expenses	40	16	35
Foreign exchange loss (gain)	67	(279)	(176)
Decrease (increase) in notes and accounts receivable	(1,157)	(2,200)	(2,111)
Decrease (increase) in inventories	(1,573)	(193)	(5)
Decrease (increase) in prepaid expenses	(73)	(56)	53
Decrease (increase) in accounts receivable - others	(52)	(237)	(30)
Increase (decrease) in notes and accounts payable	371	702	1,071
Directors' bonuses	-	(71)	(71)
Others	1,226	1,268	1,138
	<u>3,687</u>	<u>3,108</u>	<u>6,237</u>
Payments related to losses on business restructuring	(64)	-	(127)
Payments related to losses from earthquake disaster	(69)	-	-
Interest and dividends received	22	14	29
Interest paid	(40)	(16)	(35)
Income taxes paid	(2,459)	(1,907)	(1,963)
	<u>1,076</u>	<u>1,199</u>	<u>4,141</u>
Net cash used in investing activities			
Increase in time deposits	(100)	(100)	(100)
Decrease in time deposits	100	100	100
Payments for investment in securities	-	(396)	(396)
Proceeds from sales of marketable securities	-	351	447
Proceeds from sales of investment securities	318	74	98
Purchase of tangible fixed assets	(2,756)	(900)	(1,091)
Proceeds from sales of tangible fixed assets	562	11	64
Purchase of intangible fixed assets	(883)	(660)	(908)
Proceeds from capital issuance to minority shareholders	-	-	8
Others	(17)	184	128
	<u>(2,777)</u>	<u>(1,336)</u>	<u>(1,649)</u>
Net cash used in financing activities			
Increase (decrease) in short-term borrowings	(263)	72	68
Payments for redemption of convertible bonds	-	(23)	(23)
Proceeds from sales of treasury stock	14	7	7
Purchase of treasury stock	(7)	(28)	(29)
Cash dividend paid	(869)	(729)	(745)
	<u>(1,126)</u>	<u>(700)</u>	<u>(721)</u>
Effect of exchange rate changes on cash and cash equivalents	99	(110)	(119)
Net increase (decrease) in cash and cash equivalents	<u>(2,726)</u>	<u>(948)</u>	<u>1,651</u>
Cash and cash equivalents at beginning of term	11,512	9,861	9,861
Cash and cash equivalents at end of term	<u>8,786</u>	<u>8,913</u>	<u>11,512</u>

4. Segment information

Business segment information

Millions of yen	Mechatronic product business	Supply product business	Total	Eliminations	Consolidated
Nine months ended December 31, 2004					
Sales					
External customer sales	20,711	26,062	46,773	(-)	46,773
Intersegment transactions and eliminations	-	-	-	(-)	-
	20,711	26,062	46,773	(-)	46,773
Operating expenses	18,483	24,227	42,710	(-)	42,710
Operating income	2,228	1,835	4,063	(-)	4,063
Nine months ended December 31, 2003					
Sales					
External customer sales	19,292	24,035	43,327	(-)	43,327
Intersegment transactions and eliminations	-	-	-	(-)	-
	19,292	24,035	43,327	(-)	43,327
Operating expenses	17,187	22,300	39,487	(-)	39,487
Operating income	2,105	1,734	3,839	(-)	3,839
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 product business: electronic printers, hand labelers

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

Geographical segment information

Millions of yen	Japan	North America	Europe	Asia	Total	Eliminations	Consolidated
Nine months ended December 31, 2004							
Sales							
External customers	38,534	2,630	3,975	1,632	46,773	-	46,773
Intersegment sales	1,842	19	89	7,418	9,369	(9,369)	-
	40,376	2,650	4,065	9,050	56,143	(9,369)	46,773
Operating expenses	36,101	2,728	4,706	8,793	52,330	(9,619)	42,710
Operating income (loss)	4,275	(77)	(641)	257	3,813	250	4,063
Nine months ended December 31, 2003							
Sales							
External customers	35,837	2,373	3,854	1,262	43,327	-	43,327
Intersegment sales	1,929	7	165	7,049	9,151	(9,151)	-
	37,766	2,381	4,019	8,312	52,479	(9,151)	43,327
Operating expenses	33,757	2,458	4,529	7,979	48,724	(9,236)	39,487
Operating income (loss)	4,008	(77)	(509)	333	3,755	84	3,839
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 (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: USA
 - Europe: Germany, UK, Poland, Belgium
 - Asia: Malaysia, Singapore, Thailand, China

Overseas sales

Millions of yen	Nine months ended December 31, 2004		Nine months ended December 31, 2003		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	2,630	5.6	2,373	5.5	3,418	5.8
Europe	3,975	8.5	3,854	8.9	5,064	8.6
Asia, others	1,632	3.5	1,262	2.9	1,697	2.9
	8,239	17.6	7,490	17.3	10,180	17.3
Consolidated sales	46,773		43,327		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, etc.: 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.