

# First Quarter Kessan Report for the March 2006 Term (Consolidated)

August 5, 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  
 (Specifically) 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: Yes  
 (Specifically) Consolidation (new): 1

### 2. Financial status and operating results for the first quarter of the year to March 31, 2006 (April 1, 2005 to June 30, 2005)

#### (1) Consolidated financial results

(in millions of yen, with fractional amounts discarded)

	Net sales		Operating income		Ordinary profit	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
June 30, 2005	16,293	5.5	1,093	(27.5)	1,106	(30.0)
June 30, 2004	15,442	8.8	1,508	13.2	1,579	16.8
March 31, 2005	61,752		5,144		5,309	

	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, 2005	575	(40.7)	18.33	–
June 30, 2004	969	36.5	30.89	30.34
March 31, 2005	3,012		96.01	95.99

(Notes)

- The percentages shown alongside net sales, operating income, etc. indicate changes from the year-earlier quarter.
- No figure for net income per share, fully diluted, is shown for the first quarter of the year to March 2006 as there were no potentially dilutive securities.

## **Summary of Results**

First-quarter consolidated net sales rose 5.5% on year to ¥16,293 million. There were no major one-off factors contributing to higher sales, such as special orders for tax-inclusive price labeling or large projects for North American drugstore chains. Nevertheless, the Company recorded its best first-quarter sales in history through efforts to tap demand in a variety of segments.

The main factors contributing to this solid sales performance were:

- (1) Strong sales of price-markdown systems
- (2) Strong sales of systems for prevention of medical errors utilizing auto-identification technology, such as bar code and RFID systems for hospitals as well as patient-card labels and specimen labels
- (3) Continued strong demand for process-control, logistics-control and traceability systems in the manufacturing and food-processing sectors, driving solid sales of bar code systems to support these
- (4) Positive effects of the acquisition of l'étiquetage rationnel s.a., now operating as a consolidated subsidiary under the name SATO FRANCE S. A. S in the European market (Sato renamed the company after acquiring it in February 2005)
- (5) Increased sales activity in Asian markets, including China and Thailand

As a result of these efforts, domestic sales rose 2.2% to ¥13,092 million, while overseas sales rose 21.5% to 3,201 million.

Earnings contracted, partly as a negative effect of the end of sales of tax-inclusive labeling products, which boosted margins in the previous year. Other factors were a higher ratio of outsourced products, such as scanners, reflecting growth in demand for systems, and an increase in the cost of goods associated with the development of printers and other new products. The Company reported operating income of ¥1,093 million (−27.5%), ordinary profit of ¥1,106 million (−30.0%) and net income of ¥575 million (−40.7%).

## (2) Consolidated financial position

	Total assets (Millions of yen)	Shareholders' equity (Millions of yen)	Equity ratio %	Shareholders' equity per share (Yen)
June 30, 2005	51,531	34,178	66.3	1,089.14
June 30, 2004	50,074	32,350	64.6	1,031.19
March 31, 2005	51,705	34,008	65.8	1,083.72

## Consolidated statements of cash flows

	Net cash provided by (used in) operating activities (Millions of yen)	Net cash used in investing activities (Millions of yen)	Net cash used in financing activities (Millions of yen)	Cash and cash equivalents at end of term (Millions of yen)
June 30, 2005	(401)	(246)	(412)	9,187
June 30, 2004	958	(488)	(405)	11,616
March 31, 2005	2,873	(3,281)	(999)	10,234

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

Consolidated cash and cash equivalents (referred to below as “cash”) decreased by ¥1,046 million in the first quarter compared to the end of the previous fiscal year. As of the end of the first quarter, cash totaled ¥9,187 million.

The major cash flow related factors for the first quarter are outlined below.

#### ***Net cash provided by (used in) operating activities:***

Net cash provided by (used in) operating activities decreased by ¥401 million. Factors contributing to positive cash flows included ¥1,075 million in income before adjustments for income taxes for the first quarter and ¥450 million in depreciation expenses. Offsetting factors were an increase of ¥425 million in notes and accounts receivable, an increase of ¥215 million in inventories, a decrease of ¥130 million in notes and accounts payable and a decrease of ¥386 million in accounts payable. Income taxes paid totaled ¥1,134 million.

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

Net cash used in investing activities decreased by ¥246 million. The main uses of cash were ¥280 million in purchase of tangible fixed assets and ¥52 million in purchase of intangible fixed assets.

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

Net cash used in financing activities decreased by ¥412 million. The main use of cash was cash dividend paid of ¥466 million.

**[Reference data]****Non-consolidated quarterly results (April 1, 2005 to June 30, 2005)**

	Net sales		Operating income		Ordinary profit	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
June 30, 2005	13,742	3.0	1,203	(23.1)	1,269	(22.0)
June 30, 2004	13,337	8.8	1,565	17.4	1,625	22.0
March 31, 2005	52,893		5,342		5,719	

	Net income		Total assets	Shareholders' equity
	(Millions of yen)	%	(Millions of yen)	(Millions of yen)
June 30, 2005	759	(25.1)	54,923	39,083
June 30, 2004	1,013	34.0	52,824	36,622
March 31, 2005	3,660		54,666	38,822

**3. Consolidated forecasts for March 2006 term (April 1, 2005 to March 31, 2006)**

	Net sales	Ordinary profit	Net income
	(Millions of yen)	(Millions of yen)	(Millions of yen)
Interim period	32,800	2,750	1,600
Annual	66,400	5,800	3,450

(N.b.) Estimated earnings per share (annual): 109.94 yen

**[Reference data]****Non-consolidated forecasts for March 2006 term (April 1, 2005 to March 31, 2006)**

	Net sales	Ordinary profit	Net income
	(Millions of yen)	(Millions of yen)	(Millions of yen)
Interim period	27,600	2,750	1,650
Annual	55,550	5,720	3,450

(N.b.) Estimated earnings per share (annual): 109.94 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**

We are making every effort to increase sales and profit and in this regard we note the following.

- (1) Domestic demand remains strong in every sector.
- (2) Overseas, there is a high likelihood of several major projects coming to fruition in the United States from the second quarter. We can also look forward to growing sales in the Asian region.

- (3) The Company is committed to improving gross margins by reducing costs in the mechatronic product and supply product segments.
- (4) In Europe, where a long-term effort to improve profits is underway, the Company launched in July new hand labelers that are expected to generate good profits. The Company is also focused on developing new sales channels and on overhauling SG&A expenses, including labor costs.

Accordingly, we have not changed our forecasts for sales and earnings announced on May 13, 2005 for both the six-month period ending September or for the full year.

## Consolidated balance sheet (Summary)

Millions of yen	June 30, 2005	June 30, 2004	Increase/decrease %	March 31, 2005
<b>Current assets</b>				
Cash	9,137	11,666	(2,529)	10,184
Notes and accounts receivable	14,749	14,210	538	14,319
Marketable securities	50	50	0	50
Inventories	7,851	5,994	1,857	7,581
Deferred credit	470	779	(308)	547
Others	809	848	(39)	928
Allowance for doubtful accounts	(78)	(65)	(13)	(68)
Total current assets	32,990	33,484	(493) (1.5)	33,542
<b>Fixed assets</b>				
<b>Tangible fixed assets</b>				
Buildings and structures	4,770	4,854	(83)	4,725
Machinery, equipment and delivery equipment	2,215	2,016	198	2,288
Tools, furniture and fixtures	1,083	865	218	1,111
Land	5,641	5,017	624	5,612
Construction in progress	784	40	743	540
	14,495	12,793	1,701 13.3	14,278
<b>Intangible fixed assets</b>	2,177	1,921	256 13.3	2,354
<b>Investments and other assets</b>				
Investment securities	173	182	(9)	156
Long-term loans	55	36	18	56
Guarantee deposits	669	703	(33)	670
Others	1,065	1,060	4	746
Allowance for doubtful accounts	(96)	(108)	12	(99)
	1,867	1,875	(7) (0.4)	1,530
Total fixed assets	18,541	16,590	1,951 11.8	18,162
<b>Total assets</b>	<b>51,531</b>	<b>50,074</b>	<b>1,457 2.9</b>	<b>51,705</b>

Millions of yen	June 30, 2005	June 30, 2004	Increase/decrease %	March 31, 2005
<b>Current liabilities</b>				
Notes and accounts payable	5,199	5,140	59	5,301
Short-term borrowings	375	375	0	350
Accounts payable - other	7,500	7,416	84	7,820
Income taxes payable	467	730	(263)	1,090
Reserve for bonuses	91	645	(553)	63
Others	2,973	2,867	106	2,395
	<u>16,609</u>	<u>17,175</u>	<u>(566)</u>	<u>(3.3)</u>
				17,022
<b>Long-term liabilities</b>				
Reserve for employees' retirement benefits	246	73	172	197
Reserve for directors' retirement allowances	245	267	(21)	267
Others	252	207	44	208
	<u>744</u>	<u>548</u>	<u>195</u>	<u>35.7</u>
				673
Total liabilities	17,353	17,723	(370)	(2.1)
				17,696
<b>Minority interest in consolidated subsidiaries</b>				
	-	-	-	-
<b>Shareholders' equity</b>				
Common stock	6,331	6,331	-	-
Capital reserves	5,783	5,795	(12)	(0.2)
Retained earnings	24,220	22,540	1,679	7.5
Unrealized gains or losses on other securities	18	43	(25)	(57.7)
Foreign currency translation adjustment	(638)	(803)	164	(20.4)
Treasury stock	(1,535)	(1,557)	21	(1.4)
Total shareholders' equity	<u>34,178</u>	<u>32,350</u>	<u>1,827</u>	<u>5.7</u>
				34,008
<b>Total liabilities and shareholders' equity</b>	<b>51,531</b>	<b>50,074</b>	<b>1,457</b>	<b>2.9</b>
				<b>51,705</b>

## Consolidated statements of income (Summary)

Millions of yen	3 months ended June 30, 2005	3 months ended June 30, 2004	Increase/decrease		12 months ended March 31, 2005
				%	
<b>Net sales</b>	16,293	15,442	851	5.5	61,752
<b>Cost of sales</b>	8,921	8,273	647	7.8	33,330
Gross profit on sales	7,372	7,168	203	2.8	28,422
<b>Selling, general and administrative expenses</b>	6,278	5,659	618	10.9	23,277
Operating income	1,093	1,508	(414)	(27.5)	5,144
<b>Non operating income</b>					
Interest income	3	6	(3)		33
Dividend income	1	3	(0)		3
Foreign exchange gains	29	83	(54)		-
Gain on cancellation of endowment insurance	-	-	-		209
Others	31	33	(1)		143
	65	126	(61)	(48.4)	389
<b>Non operating expenses</b>					
Interest expenses	20	10	10		58
Foreign exchange loss	-	-	0		32
Others	32	45	(12)		133
	52	55	(2)	(4.4)	225
Ordinary profit	1,106	1,579	(473)	(30.0)	5,309
<b>Extraordinary gains</b>	-	124	(124)		193
<b>Extraordinary losses</b>	30	3	27		252
Income before adjustments for income taxes	1,075	1,700	(624)	(36.8)	5,251
Taxes	500	735	(234)	(31.9)	2,232
Minority interest in income of consolidated subsidiaries	-	(4)	4	-	6
<b>Net income</b>	575	969	(394)	(40.7)	3,012



## Consolidated statements of cash flows (Summary)

Millions of yen	3 months ended June 30, 2005	3 months ended June 30, 2004	12 months ended March 31, 2005
<b>Net cash provided by (used in) operating activities</b>			
Income before adjustments for income taxes	1,075	1,700	5,251
Depreciation expenses	450	331	1,698
Gain on sales of investment securities	-	(124)	(192)
Gain on sales of marketable securities	0	-	-
Loss on disposal of fixed assets	4	2	16
Loss on business restructuring	23	-	154
Earthquake-related losses	-	-	74
Gain (loss) on sales of tangible fixed assets	0	0	(1)
Increase (decrease) in allowance for doubtful accounts	6	9	(6)
Increase (decrease) in reserve for bonuses	(1)	135	(417)
Increase (decrease) in reserve for directors' retirement allowances	(21)	(3)	(2)
Reserve for retirement benefits	48	44	168
Interest and dividends received	(4)	(9)	(36)
Interest expenses	20	10	58
Foreign exchange loss and gain	33	37	210
Decrease (increase) in notes and accounts receivable	(425)	208	275
Decrease (increase) in inventories	(215)	(244)	(1,694)
Decrease (increase) in prepaid expenses	(41)	(55)	(52)
Decrease (increase) in accounts receivable - others	74	31	46
Increase (decrease) in notes and accounts payable	(130)	164	133
Increase (decrease) in accounts payable	(386)	393	787
Impairment losses	-	-	3
Loss on sale of investments	-	-	3
Others	262	(264)	(951)
	772	2,370	5,527
Payments related to losses on business restructuring	(23)	-	(154)
Payments associated with earthquake-related losses	-	-	(74)
Interest and dividends received	4	9	36
Interest paid	(20)	(10)	(58)
Income taxes paid	(1,134)	(1,411)	(2,402)
	(401)	958	2,873
<b>Net cash used in investing activities</b>			
Increase in time deposits	-	-	(100)
Decrease in time deposits	-	-	200
Proceeds from sales of marketable securities	175	-	-
Payments for investment securities	(100)	-	-
Proceeds from sales of investment securities	-	176	318
Purchase of tangible fixed assets	(280)	(401)	(3,130)
Proceeds from sales of tangible fixed assets	5	57	294
Purchase of intangible fixed assets	(52)	(328)	(947)
Proceeds from capital issuance to minority shareholders	-	-	(10)
Purchase of securities of subsidiaries accompanied with reclassification of consolidation	(26)	-	(358)
Others	33	7	452
	(246)	(488)	(3,281)

Millions of yen	3 months ended June 30, 2005	3 months ended June 30, 2004	12 months ended March 31, 2005
<b>Net cash used in financing activities</b>			
Increase (decrease) in short-term borrowings	36	19	(119)
Increase (decrease) in long-term debt	25	-	-
Proceeds from sales of treasury stock	-	7	37
Purchase of treasury stock	(9)	2	(8)
Cash dividend paid	(466)	(435)	(908)
	(412)	(405)	(999)
Effect of exchange rate changes on cash and cash equivalents	13	39	129
Net increase (decrease) in cash and cash equivalents	(1,046)	103	(1,278)
Cash and cash equivalents at beginning of year	10,234	11,512	11,512
Cash and cash equivalents at end of year	9,187	11,616	10,234

## 4. Segment information

### Business segment information

Millions of yen	Mechatronic product business	Supply product business	Total	Eliminations	Consolidated
<b>3 months ended June 30, 2005</b>					
Sales					
External customer sales	7,175	9,118	16,293	( - )	16,293
Intersegment transactions and eliminations	-	-	-	( - )	-
	7,175	9,118	16,293	( - )	16,293
Operating expenses	6,600	8,599	15,199	( - )	15,199
Operating income	575	518	1,093	( - )	1,093
<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>12 months ended March 31, 2005</b>					
Sales					
External customer sales	27,660	34,091	61,752	( - )	61,752
Intersegment transactions and eliminations	-	-	-	( - )	-
	27,660	34,091	61,752	( - )	61,752
Operating expenses	24,856	31,751	56,607	( - )	56,607
Operating income	2,804	2,340	5,144	( - )	5,144

(Note)

The main products of each business segment are as follows:

The mechatronic product business: electronic printers, hand labelers

The supply product business: labels/tags for electronic printer, labels for hand labeler, IC tags/labels, tickets, ribbons, MC-cards

## Geographical segment information

Millions of yen	Japan	North America	Europe	Asia	Total	Eliminations	Consolidated
<b>3 months ended June 30, 2005</b>							
Sales							
External customers	13,092	870	1,718	612	16,293	-	16,293
Intersegment sales	650	4	281	3,295	4,231	(4,231)	-
	13,742	874	1,999	3,908	20,525	(4,231)	16,293
Operating expenses	12,538	851	2,217	3,682	19,290	(4,090)	15,199
Operating income (loss)	1,203	22	(217)	225	1,234	(140)	1,093
<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>12 months ended March 31, 2005</b>							
Sales							
External customers	50,405	3,625	5,459	2,261	61,752	-	61,752
Intersegment sales	2,487	20	109	10,263	12,881	(12,881)	-
	52,893	3,645	5,568	12,525	74,633	(12,881)	61,752
Operating expenses	47,551	3,707	6,301	12,225	69,785	(13,178)	56,607
Operating income (loss)	5,342	(61)	(732)	299	4,847	296	5,144

### (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, UK, Poland, Belgium, France  
 Asia: Malaysia, Singapore, Thailand, China, Vietnam

## Overseas sales

Millions of yen	3 months ended June 30, 2005		3 months ended June 30, 2004		12 months ended March 31, 2005	
	Overseas sales	As % of net sales	Overseas sales	As % of net sales	Overseas sales	As % of net sales
North America	870	5.3	967	6.3	3,625	5.9
Europe	1,718	10.5	1,248	8.1	5,459	8.8
Asia and others	612	3.8	418	2.7	2,261	3.7
	3,201	19.6	2,634	17.1	11,346	18.4
Consolidated sales	16,293		15,442		61,752	

(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, UK, 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.