Interim Kessan Report for the March 2006 Term (Consolidated)

November 7, 2005

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:	Tatsuo Narumi, Executive Officer, General Manager, Corporate Planning & Administration Division Phone: (03) 5789-2500
Date of Board of Directors' meeting for approval of financial results:	November 4, 2005
Adoption of U.S. accounting standards:	No

1. Consolidated operating results (April 1, 2005 to September 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)	%
September 30, 2005	32,911	6.9	2,433	(7.6)	2,490	(5.5)
September 30, 2004	30,786	8.8	2,632	6.5	2,635	12.5
March 31, 2005	61,752		5,144		5,309	

	Net income		Net income per share	Net income per share, fully diluted
	(Millions of yen)	%	(Yen)	(Yen)
September 30, 2005	1,321	(8.1)	42.11	-
September 30, 2004	1,437	1.8	45.82	45.79
March 31, 2005	3,012		96.01	95.99

(Notes)

1. Gains or losses on investments through equity method accounting:
   September 2005 term: - September 2004 term: -
   March 2005 term: -
2. Average number of outstanding shares during the term (consolidated):
   September 2005 term: 31,381,058 shares September 2004 term: 31,372,491 shares
   March 2005 term: 31,374,259 shares
3. Changes in accounting methods: No
4. The percentages shown next to net sales, operating income, ordinary profit and net income represent year-on-year changes.
5. There is no entry for diluted net income per share for the interim term ended September 30, 2005 because the Company had no residual securities capable of diluting earnings.

(2) Consolidated financial position

	Total assets	Shareholders' equity	Equity ratio	Shareholders' equity per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
September 30, 2005	52,835	34,974	66.2	1,114.53
September 30, 2004	50,636	32,919	65.0	1,049.26
March 31, 2005	51,705	34,008	65.8	1,083.72

(Note)

Number of outstanding shares at end of term (consolidated):
September 2005 term: 31,380,685 shares September 2004 term: 31,374,025 shares
March 2005 term: 31,381,470 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, 2005	840	(1,092)	(461)	9,584
September 30, 2004	1,311	(1,239)	(476)	11,254
March 31, 2005	2,873	(3,281)	(999)	10,234

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

Consolidated subsidiaries: 17

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 2006 term (From April 1, 2005 to March 31, 2006)

	Net sales	Ordinary profit	Net income
	(Millions of yen)	(Millions of yen)	(Millions of yen)
Annual	66,400	5,800	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.

1. Group organization

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

All seventeen 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."

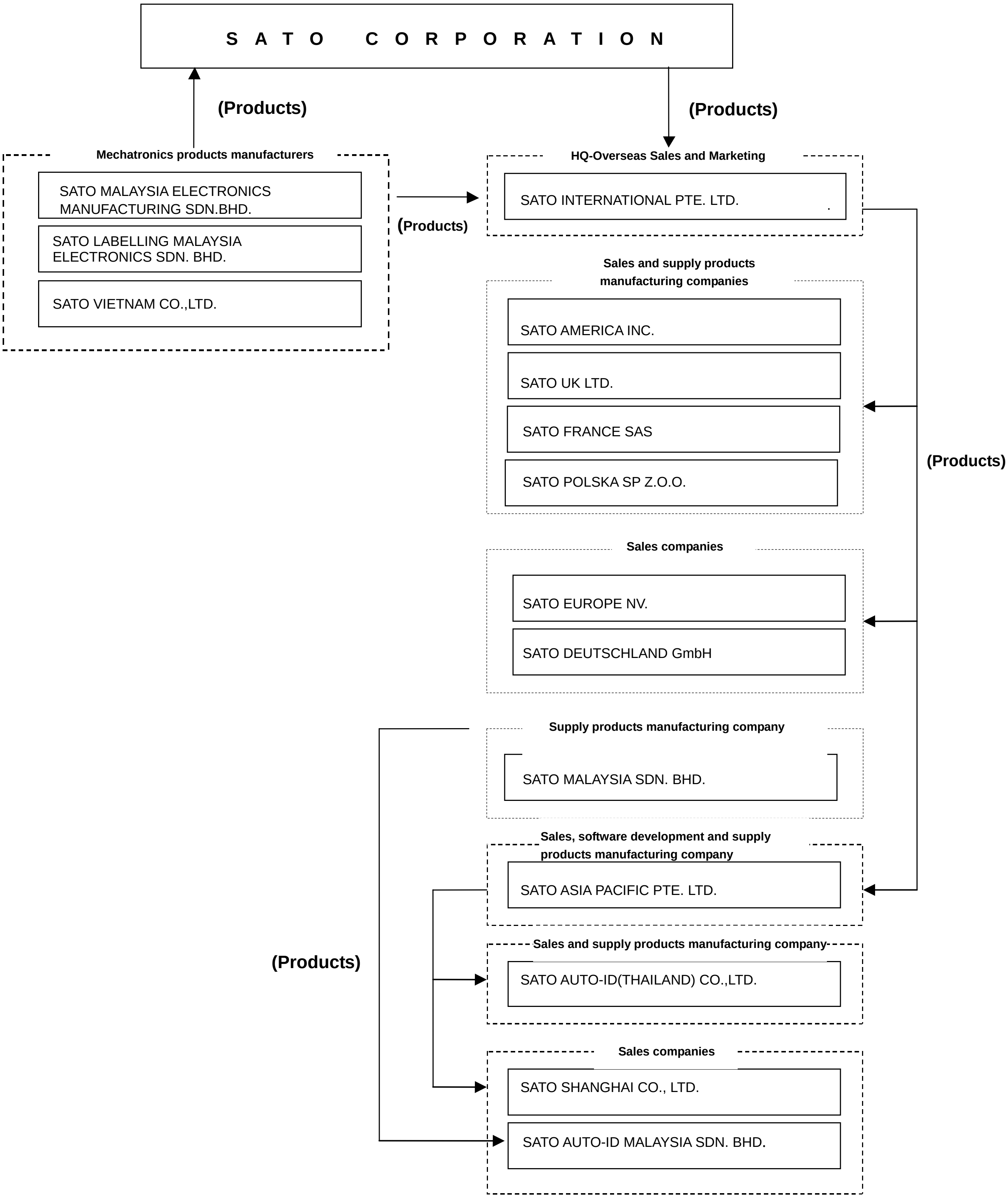
Business / Main products and services	Contents	Companies
Mechatronics product business		
Electronic printers, labeling robots, automatic labelers, hand labelers, software, maintenance services	Production	SATO CORPORATION SATO MALAYSIA ELECTRONICS MANUFACTURING SDN. BHD. (Malaysia) SATO LABELLING MALAYSIA ELECTRONICS SDN. BHD. (Malaysia) SATO VIETNAM CO., LTD. (Vietnam) (4 companies)
	Sales	SATO CORPORATION SATO INTERNATIONAL PTE. LTD. (Singapore) *Sales to the following subsidiaries* SATO AMERICA INC. (U.S.A.) SATO UK LTD. (U.K.) SATO EUROPE NV. (Belgium) SATO ASIA PACIFIC PTE. LTD. (Singapore) SATO FRANCE SAS (France) SATO DEUTSCHLAND GmbH (Germany) SATO POLSKA SP Z. O. O. (Poland) SATO SHANGHAI CO., LTD. (China) SATO AUTO-ID MALAYSIA SDN. BHD. (Malaysia) SATO AUTO-ID (THAILAND) CO., LTD. (Thailand) (12 companies)
Supply products business		
Electronic printer labels/tags, carbon ribbons, handheld labeler labels, product labels, IC tags/lagels, MC-cards, tickets	Production	SATO CORPORATION SATO AMERICA INC. (U.S.A.) SATO UK LTD. (U.K.) SATO ASIA PACIFIC PTE. LTD. (Singapore) SATO FRANCE SAS (France) SATO POLSKA SP Z. O. O. (Poland) SATO MALAYSIA SDN. BHD. (Malaysia) SATO AUTO-ID (THAILAND) CO., LTD. (Thailand) (8 companies)
	Sales	SATO CORPORATION SATO INTERNATIONAL PTE. LTD. (Singapore) *Sales to the following subsidiaries* SATO AMERICA INC. (U.S.A.) SATO UK LTD. (U.K.) SATO EUROPE NV. (Belgium) SATO ASIA PACIFIC PTE. LTD. (Singapore) SATO FRANCE SAS (France) SATO DEUTSCHLAND GmbH (Germany) SATO POLSKA SP Z. O. O. (Poland) SATO SHANGHAI CO., LTD. (China) SATO AUTO-ID MALAYSIA SDN. BHD. (Malaysia) SATO AUTO-ID (THAILAND) CO., LTD. (Thailand) (12 companies)

(Notes)

1. In addition to the above, there are also SATO HOLDING (THAILAND) CO., LTD. (a holding company) and S.A.R.L. DES BOIS BLANCS (Real estate-management firm).
2. SATO MALAYSIA ELECTRONICS MANUFACTURING SDN. BHD., SATO VIETNAM CO., LTD. and SATO INTERNATIONAL PTE. LTD. are subsidiaries of the Company.
3. SATO LABELLING MALAYSIA ELECTRONICS SDN. BHD. is a subsidiary of SATO MALAYSIA ELECTRONICS MANUFACTURING SDN. BHD.
4. SATO AMERICA INC., SATO UK LTD., SATO EUROPE NV. and SATO ASIA PACIFIC PTE. LTD. are subsidiaries of SATO INTERNATIONAL PTE. LTD.

5. SATO FRANCE SAS, SATO DEUTSCHLAND GmbH and SATO POLSKA SP Z. O. O. are subsidiaries of SATO EUROPE NV.
6. SATO SHANGHAI CO., LTD., SATO MALAYSIA SDN. BHD., SATO AUTO-ID (THAILAND) CO., LTD. and SATO HOLDING (THAILAND) CO., LTD. are subsidiaries of SATO ASIA PACIFIC PTE. LTD.
7. S.A.R.L. DES BOIS BLANCS is a subsidiary of SATO FRANCE SAS.
8. SATO AUTO-ID MALAYSIA SDN. BHD. is a subsidiary of SATO MALAYSIA SDN. BHD.

The business relationships of the Group described earlier 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 business 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 15 yen per share for the interim period ended September 30, 2005.

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

"DCS & Labeling" is the name the Company gives to the group's unique business model. The Company designs and develops tailored, integrated on-site data-processing systems to provide customers with optimal solutions for specific operational site requirements. In order to collect data about any transportable item, from raw materials to manufactured goods and outsourced products, the Company offers total solutions, utilizing its auto-identification technology, covering bar codes, 2-D codes and RFID (IC tags/labels), to come up with the optimal combination of printer, scanner, peripherals and software. It also provides supply products including labels, ribbons and cards, and offers maintenance service following installation.

The Company recognizes that standing still is not an option when striving to generate sustained growth in global performance. It is committed to a process of constant, building up of "small changes" to realize its motto of "never-ending creativity."

It aims to be a "leading company in the auto-identification industry" through the global implementation of its unique DCS & Labeling business model as it pursues "small changes" in all areas of corporate activity.

5. Issues requiring action

a. Global expansion of DCS & Labeling

The Company will take the following steps to promote globally its business concept of DCS & Labeling, with which it has been successful in Japan.

- Expansion of business in North America and Asia

  A number of major projects have steadily lifted sales and profit and the North American business is now poised for further growth. The Company will continue to expand its North American operations, along with its already fast-growing Asian operations, to serve as a growth engine for the overseas business.

- Acceleration of program to revamp European sales organization

  Sato is working to restructure its sales organization in Europe, where the business outlook remains uncertain, by upgrading its sales-office network, hiring new staff and signing up new distributors. In February 2005, Sato acquired its French distributor l'étiquetage Rationnel, renaming it SATO FRANCE SAS. Since the acquisition, this subsidiary has contributed to the growth of group sales through steady improvement in operating performance. Sato has strengthened its relationships with Germany's Metro Group and other major corporations through their involvement in RFID validation testing and has held successful negotiations with department stores and others for installation of price-markdown systems. These initiatives reflect a shift away from a selling approach relying heavily on distributors, which, together with structural reforms aimed at ensuring a clearer focus on system sales, sales of labels and maintenance-service activities, is gradually beginning to bear fruit. The Company intends to accelerate the restructuring program to improve its profitability in European markets.

- Strengthening production and delivery of supply products

  In 2005, Sato has production and delivery facilities for supply products in seven overseas locations: France, USA, UK, Poland, Singapore, Thailand and Malaysia. The Company plans to increase the number of locations throughout the world to optimize its production and delivery network for labels, tags and RFID-related products.

- Improved maintenance-service capabilities

  To ensure that customers throughout the world can continue to use Sato products with assurance, the Company is working to equip overseas sales subsidiaries with maintenance-service capabilities and to provide technical training to major distributors to improve their skill levels.

b. Bolstering sales strength in the Japanese market to achieve ongoing growth

In the Japanese market, Sato has been quick to develop new applications to deliver greater accuracy, energy saving and saving of resources, and this effort has been rewarded with positive results for operating performance. The applications include error-prevention and hospital-management systems in the medical sector, traceability systems in the food industry, and systems for process control and parts control in the manufacturing sector. To respond to the accelerating need for safety, assurance and efficiency in all sectors, the Company is striving to optimize the geographical configuration of its sales offices and strengthen its ability to offer solutions to its customers in order to sustain growth.

In October 2005, the Company opened its new Hachioji Branch and Hachioji Service Center. These new facilities will service the needs of new and existing customers in the many businesses related to processing of agricultural product, machine-parts manufacturing and logistics in the western Tokyo area, Yamanashi Prefecture and the Sagamihara area.

c. Upgrading and expansion of production and logistics facilities and ongoing efforts to reduce costs

Sato's new plant for manufacture of mechatronics products in Vietnam started up in June 2005 to respond to strong domestic demand and demand generated by overseas business expansion. Going forward, the Company will focus effort on improving the efficiency of manufacturing processes, training human resources and improving productivity and quality.

In April 2004, Sato established a Purchasing Center within its Omiya Techno Center to create a single interface with suppliers in order to reduce materials costs. It will work to lower costs, cut delivery lead times and reduce currency-exchange risks and focus on developing a supply-chain system that is rapidly responsive to changes in the business environment from the stage of development and design of new products through to the delivery stage.

d. Strengthening of new-product development function

In order to reflect the diverse needs of customers in Japan and overseas, Sato created a Product Planning Office within the sales division as part of organizational reforms implemented in October 2005. Along with this initiative, it will work to upgrade and expand its offering of supply products and applications software in order to improve its global competitiveness.

e. Intellectual property activities

The growth in demand for bar codes, 2-D codes, RFID and other auto-identification systems has generated a variety of ideas related to technology and systems operation throughout the world. The Company is aware that defense of intellectual property both inside and outside of Japan is one of the key challenges faced by corporations and as part of the October 2005 reforms, has reorganized its Intellectual Property Department into an Intellectual Property Office and increased the staff.

f. Establishment of global network

The Company set up its Rotterdam Logistics Center in October 2002 in order to facilitate physical distribution in the European area and intends to establish logistics centers in other parts of the world, including the fast-growing Asian region, as business expands. It also intends to install an ERP system and strengthen the network linking the various parts of the group's business.

g. Reenergization of human resources

The Company will continue to invest in the training of human resources in the belief that raising the added value created by people increases the value of the corporation.

While working to reenergize the organization and individual employees through programs to train next-generation leaders and utilization of the three-line reporting system (Sato's unique knowledge-management system), the Company intends to create a corporate culture that welcomes the contribution of women and elderly employees as one way to secure human resources in an era when society is aging and the birthrate is falling. The Company introduced an annual-salary system for all employees in April 2005. It will continue to revise its personnel system going forward, with a focus on reward for performance, in order to improve human productivity.

h. Promotion of corporate social responsibility (CSR)

While emphasizing the contribution of its core business to society, Sato actively discloses information to all of its stakeholders regarding compliance, risk management, environmental management and positive action, in line with its management philosophy of contributing to the development of society at the global level, in order to maintain two-way communication and build a relationship of trust. The Company aims to establish its own corporate brand through unique CSR activities that are faithful to the Company's corporate culture.

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 related to corporate governance

- Description of Company organs

  The Company employs a system of corporate auditors. It has established the necessary mechanisms to ensure ongoing implementation of its basic approach to corporate governance through the adoption of a system of corporate executive officers, which aims to separate management decision-making and supervisory oversight of management from the policy-execution management responsibilities of the Board of Directors.

  The Board of Directors comprises 10 members. Four of these are outside directors whose role is to present ideas from an independent viewpoint and to bolster the oversight of management in the interests of shareholders.

  The Board of Directors meets 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. For other important matters of an operational nature, a management council composed of directors, corporate auditors, executive officers and other executives, operating under the chairmanship of the Company's representative director, deliberates and makes decisions.

- Upgrading of internal controls

  The elements comprising the Company's internal-control system are regular internal auditing, a CSR Department, a Risk Management Committee and programs to raise awareness of compliance with legal regulations and ethics. In addition, the Company receives appropriate advice, as required, from its legal advisors and auditing firm. The Company also recognizes the importance of timely disclosure of accurate information. It has an active IR program and is working to reinforce its internal systems for disclosure of information.

- Upgrading risk management

  The Company's Risk Management Committee operates within the CSR Department and comprises separate subcommittees dealing with sexual harassment measure, health & safety, product liability and information security.

The Risk Management Committee and its subcommittees deliberate on (1) sharing of risk information, (2) preventive measures to avoid risk, (3) emergency measures to deal with crises when they occur. In the event of a crisis, the Committee becomes a crisis-management task force with the role of establishing a specific timetable for recovery, determining recovery measures and overseeing company operations.

In order to identify areas of potential risk, the Company is now preparing a risk map and drawing up a manual, starting with high-priority items.

- Internal audits and audits by auditing firms

  The internal audit office is staffed by four persons who support the auditing activities of the corporate auditors. The Board of Auditors comprises four corporate auditors (including one standing corporate auditor). These corporate auditors strive to maintain corporate transparency through regular board meetings and coordination with the Company's auditing firm. The auditing firm is ChuoAoyama PricewaterhouseCoopers.

- Relationship with outside directors and outside auditors

  There is no relationship between the Company and outside directors or outside auditors involving personal, financial or business interests.

3. Results of operation and Cash flows

1. Results of operations

a. Summary of financial performance

The consolidated net sales in the six months ended September 2005 grew 6.9% year on year to ¥32,911 million, breaking last year's half-yearly sales record.

Factors contributing to the favorable result in Japan included strong net sales of error-prevention wristband systems in the medical sector using automatic identification technology, such as bar codes and RFID (Radio Frequency Identification) for hospitals, as well as labeling systems for patient files and specimens. There were also solid sales of price-markdown systems to major retailers and continued strong demand for process control, logistics control and product traceability in the manufacturing and food-processing sectors, generating strong sales of bar-code systems to support this demand. Overseas, the Company was successful in winning several major projects in North America. In Europe, the Company saw benefits from the acquisition of SATO FRANCE SAS, now a consolidated subsidiary, and was also successful in finalizing the sale of a price-markdown system for a major British retailing firm. In the Asian region, sales to China and Thailand were strong.

As a result, domestic sales rose 4.6% year on year to ¥26,437 million while overseas sales grew 17.4% to ¥6,473 million.

Profit growth was impacted by several factors. First, the Company no longer benefited from sales related to tax-inclusive price indication, which had contributed significantly to profit in the previous year. Furthermore, as sales of systems increased, there was a concomitant increase in the ratio of outsourced products, such as scanners, in the sales mix, which slightly depressed profit margins. The cost of goods also rose due to a succession of new-product launches, such as electronic printers and hand labelers, while the domestic ERP system installed by the Company in the previous fiscal year added to depreciation costs. As a result, the Company recorded operating income of ¥2,433 million (down 7.6%), ordinary profit of ¥2,490 million (down 5.5%), and net income of ¥1,321 million (down 8.1%).

Segment results were as follows.

(a) Mechatronics products

The segment posted net sales of ¥14,711 million (+5.9%) and operating income of ¥1,383 million (-5.0%).

(b) Supply products

The segment posted net sales of ¥18,200 million (+7.8%) and operating income of ¥1,049 million (-10.7%).

b. Forecast for the year to March 2006 (Fiscal 2005)

The Company expects demand to grow in all segments in the Japanese market. In the medical segment, the Ministry of Health, Labor and Welfare finalized its decision in September concerning the method of coding to be used on pharmaceuticals and this should lead to higher demand for marking systems not only at the hospital and clinic level, but also upstream among bulk-drug manufacturers and pharmaceuticals companies. In the retailing segment, which includes supermarkets and volume retailers, negotiations related to the installation of price-markdown systems are expected to gather momentum. Demand for traceability systems remains strong in the food-processing sector and negotiations are underway for systems in a broad array of applications, from logistics control to raw-ingredient control. In the manufacturing sector, the Company can look forward to increased business from car manufacturers and the steel industry.

Overseas, North American operations have almost entirely turned around, and the Company foresees stable growth and higher sales of supply products in Asia. In Europe, the Company is making progress in its business-restructuring efforts. These initiatives, plus growing sales of electronic printers, hand labelers and other newly launched products, should lead to improved results overall in overseas markets.

The Company has received many inquiries and requests for negotiations from customers nationwide concerning systems utilizing RFID operating in the UHF (Ultra High Frequency) band, which became available in Japan effective from April 2005. At this stage, it is not clear how much this will contribute to earnings, but overseas the Company has already established a reputation as a supplier of systems to major wholesaling firms and numerous international corporations. It plans to capitalize on its leading-edge position and track record in competing against overseas suppliers to work actively in promoting use of RFID and expanding this business in Japan also.

Based on the above, consolidated full-year forecasts for the group remain unchanged from the forecasts announced on May 13, 2005, namely, net sales ¥66,400 million (up 7.5%), operating income ¥5,700 million (up 10.8%), ordinary profit ¥5,800 million (up 9.2%) and net income ¥3,450 million (up 14.5%).

(Reference data)

Consolidated Forecasts for March 2006 Term (April 1, 2005–March 31, 2006)

	Millions of yen	Change (%)
Net sales	66,400	+7.5
Operating income	5,700	+10.8
Ordinary profit	5,800	+9.2
Net income	3,450	+14.5

Segment sales forecasts are given below.

〔Product Segment Forecasts〕

(a) Mechatronics products: Full-term sales of ¥29,170 million (+5.5%).

(b) Supply products: Full-term sales of ¥37,230 million (+9.2%).

2. Cash flows for the interim period ended September 30, 2005

Consolidated cash and cash equivalents (referred to below as “cash”) decreased by ¥1,670 million relative to the previous interim period. As of the interim period ended September 30, 2005, cash totaled ¥9,584 million. The major cash flow-related factors for the interim period ended September 30, 2005 are outlined below.

Net cash provided by operating activities

Net cash provided by operating activities amounted to ¥840 million. This was mainly due to positive cash flows from income before adjustments for income taxes and from depreciation expenses. Significant offsetting factors included an increase of ¥975 million in notes and accounts receivable, an increase of ¥231 million in inventories, a decrease of ¥374 million in notes and accounts payable and income taxes paid totaling ¥1,118 million.

Net cash used in investing activities

Net cash used in investing activities totaled ¥1,092 million. This was mainly the result of ¥701 million expended for the purchase of tangible fixed assets and ¥325 million for the purchase of intangible fixed assets.

Net cash used in financing activities

Net cash used in financing activities amounted to ¥461 million, principally as a result of cash dividend payments totaling ¥501million.

3. Other risks to business

Of the items shown in financial results and financial position, the following could significantly influence the judgment of investors. Items that refer to the future are based on the Company's judgment as of the end of the current interim period.

a. Risks related to trends in the automatic identification system industry

At the present time, a large percentage of the Sato group's sales derive from bar code-related products, reflecting the widespread use of bar codes throughout society. The market for bar codes benefited in its early days from the dissemination of point-of-sale (POS) system in the retail industry and from applications in production control systems, including those related to distribution and factory automation. In recent years, the market has been expanding because of demand for traceability systems for medical care providers and the food industry and for EDI systems. Although capital investment trends, industry realignments and other factors could impact the market in any of these areas, the Company believes that usage and demand for bar codes will continue to expand.

In the automatic identification system industry, research and development is proceeding apace on IC tag and labeling technologies that enable users to input large amounts of information into IC tags/labels. The Sato group believes that the growing popularity of IC tags/labels represents an opportunity to expand its business. It has consequently established an internal project team to conduct research on these technologies and has introduced a number of IC tag/label-related products in selected markets. At the same time, while they offer the advantage of contact-free recognition of multiple items via radio wave, IC tags/labels are problematic in a number of respects, particularly as concerns over protection of privacy, high costs and the need to select applicable environments. We believe, therefore, that a certain amount of time will be required before the technologies are accepted by society in general and before the technologies have evolved to an appropriate degree. It consequently remains unclear how much these products will contribute to the Group's financial performance in the future.

The policy of the Sato group is to meet the needs of its customers continually. That said, however, the Group's financial performance could be affected by trends in demand for products related to bar codes and IC tags/labels.

b. Overseas business activity

- Production system

  In order to improve its price competitiveness, Sato manufactures most mechatronics products, including electronic printers and hand labelers, at its plant in Malaysia. It constructed a new plant in Vietnam, which started up in June 2005. This will reduce risks associated with the concentration of the manufacturing of mechatronics products in the Malaysian plant.

  The Company has a production and procurement system for supply products in Japan and other countries and regions in which it conducts sales activities. Changes in laws and regulations in the relevant countries, a severe downturn in business conditions, military conflict, natural disasters and other unforeseen developments could affect the Group's financial results.

- Overseas sales

  In addition to Japan, the Sato group sells its products through a number of sales subsidiaries in North America, Europe and Asia. Since the year ended March 2003, it has been conducting a reorganization of its overseas sales capabilities aimed at strengthening its coverage in these markets. Specifically, this entails organizing its sales strategies around the "presentation-based" model employed in the Japanese market. Unforeseen circumstances such as a significant deterioration in political and economic trends, natural disasters or the outbreak of contagious diseases could, however, exert an impact on the Group's financial results.

- Currency fluctuations

  The Group's pursuit of manufacturing and sales on a global scale exposes it to the effects of currency fluctuations. Its response has been to transfer export transactions of its overseas operations from Japan to a company established for that purpose in Singapore. It is also endeavoring to minimize risk through financial strategies such as forward exchange contracts and currency swaps. Since it is never possible to totally eliminate foreign currency risks from commercial activity, however, any significant shift in currency values could have an impact on the Group's financial results.

Consolidated balance sheets

Millions of yen	September 30, 2004	%	September 30, 2005	%	March 31, 2005	%
Current assets						
Cash	11,304		9,534		10,184	
Notes and accounts receivable	13,806		15,401		14,319	
Marketable securities	50		50		50	
Inventories	6,808		7,949		7,581	
Deferred credit	500		550		547	
Deferred taxes	411		196		400	
Others	515		562		527	
Allowance for doubtful accounts	(61)		(79)		(68)	
Total current assets	33,334	65.8	34,164	64.7	33,542	64.9
Fixed assets						
Tangible fixed assets						
Buildings and structures	8,691		9,438		8,756	
Accumulated depreciation	3,859		4,144		4,030	
	4,832		5,293		4,725	
Machinery, equipment and delivery equipment	6,873		7,332		7,297	
Accumulated depreciation	4,777		5,193		5,008	
	2,096		2,139		2,288	
Tools, furniture and fixtures	3,781		4,300		4,018	
Accumulated depreciation	2,784		3,084		2,907	
	996		1,216		1,111	
Land	4,996		5,657		5,612	
Construction in progress	252		289		540	
	13,173	26.0	14,597	27.6	14,278	27.5
Intangible fixed assets						
Consolidation adjustment account	-		111		124	
Leaseholds	471		472		451	
Others	1,856		1,775		1,779	
	2,327	4.6	2,360	4.5	2,354	4.6
Investments and other assets						
Investment securities	46		171		156	
Long-term loans	61		54		56	
Guarantee deposits	687		720		670	
Deferred tax assets	359		401		338	
Others	746		459		408	
Allowance for doubtful accounts	(100)		(94)		(99)	
	1,800	3.6	1,713	3.2	1,530	3.0
Total fixed assets	17,301	34.2	18,670	35.3	18,162	35.1
Total assets	**50,636**	**100.0**	**52,835**	**100.0**	**51,705**	**100.0**

Millions of yen	September 30, 2004	%	September 30, 2005	%	March 31, 2005	%
Current liabilities						
Notes and accounts payable	5,044		5,045		5,301	
Short-term borrowings	414		402		350	
Accounts payable - other	7,277		7,745		7,820	
Income taxes payable	1,256		918		1,090	
Reserve for bonuses	453		123		63	
Allowance for directors' bonuses	-		-		30	
Notes payable - plant and equipment	238		106		23	
Others	2,437		2,743		2,341	
	17,123	33.8	17,086	32.3	17,022	32.9
Long-term liabilities						
Long-term debt	-		38		-	
Reserve for employees' retirement benefits	112		289		197	
Reserve for directors' retirement allowances	267		245		267	
Others	213		200		208	
	593	1.2	774	1.5	673	1.3
Total liabilities	17,717	35.0	17,860	33.8	17,696	34.2
Minority interest in consolidated subsidiaries	-	-	-	-	-	-
Shareholders' equity						
Common stock	6,331	12.5	6,331	12.0	6,331	12.2
Capital reserves	5,790	11.5	5,791	11.0	5,791	11.2
Retained earnings	23,008	45.4	24,963	47.2	24,143	46.8
Unrealized gains or losses on other securities	5	0.0	18	0.0	13	0.0
Foreign currency translation adjustments	(663)	(1.3)	(592)	(1.1)	(736)	(1.4)
Treasury stock	(1,552)	(3.1)	(1,536)	(2.9)	(1,534)	(3.0)
Total shareholders' equity	32,919	65.0	34,974	66.2	34,008	65.8
Total liabilities and shareholders' equity	**50,636**	**100.0**	**52,835**	**100.0**	**51,705**	**100.0**

Consolidated statements of income

Millions of yen	Interim period ended September 30, 2004	%	Interim period ended September 30, 2005	%	Year ended March 31, 2005	%
Net sales	30,786	100.0	32,911	100.0	61,752	100.0
Cost of sales	16,439	53.4	18,130	55.1	33,330	54.0
Gross profit on sales	14,347	46.6	14,781	44.9	28,422	46.0
Selling, general and administrative expenses	11,715	38.1	12,347	37.5	23,277	37.7
Operating income	2,632	8.5	2,433	7.4	5,144	8.3
Non operating income						
Interest income	15		13		33	
Dividend income	3		1		3	
Gain on cancellations of endowment insurance	-		-		209	
Foreign exchange gains	73		112		-	
Rental income	25		25		50	
Commissions and fees	4		4		9	
Others	20		49		83	
	141	0.5	207	0.6	389	0.6
Non operating expenses						
Interest expenses	27		53		58	
Loss on disposal of inventories	4		17		8	
Foreign exchange loss	-		-		32	
Valuation loss on swap transactions	42		22		36	
Others	64		56		88	
	138	0.4	149	0.4	225	0.3
Ordinary profit	2,635	8.6	2,490	7.6	5,309	8.6
Extraordinary gains						
Gain on sales of fixed assets	0		1		1	
Gain on sales of investment securities	188		-		192	
Reversal of allowance for doubtful accounts	10		10		-	
Others	0		-		-	
	200	0.6	12	0.0	193	0.3
Extraordinary losses						
Loss on business restructuring	52		48		154	
Earthquake-related losses	-		-		74	
Loss on disposal of fixed assets	12		9		16	
Others	24		0		6	
	88	0.3	57	0.2	252	0.4
Income before adjustments for income taxes	2,746	8.9	2,444	7.4	5,251	8.5
Corporate, inhabitants and enterprise taxes	1,259		989		2,169	
Deferred taxes	56		133		62	
	1,316	4.2	1,123	3.4	2,232	3.6
Minority interest in income (loss) of consolidated subsidiaries	(6)	(0.0)	-	-	6	0.0
Net income	1,437	4.7	1,321	4.0	3,012	4.9

Consolidated statements of retained earnings

Millions of yen	Interim period ended September 30, 2004	Interim period ended September 30, 2005	Year ended March 31, 2005
Capital reserves			
Capital reserves at beginning of term	5,790	5,791	5,790
Increase in capital reserves			
Gain on sales of treasury stock	0	-	1
	0	-	1
Capital reserves at end of term	5,790	5,791	5,791
Retained earnings			
Retained earnings at beginning of term	22,041	24,143	22,041
Increase in retained earnings			
Net income	1,437	1,321	3,012
	1,437	1,321	3,012
Decrease in retained earnings			
Dividends - total	470	502	909
	470	502	909
Retained earnings at end of term	23,008	24,963	24,143

Consolidated statements of cash flows

Millions of yen	Interim period ended September 30, 2004	Interim period ended September 30, 2005	Year ended March 31, 2005
Net cash provided by operating activities			
Income before adjustments for income taxes	2,746	2,444	5,251
Depreciation expenses	755	916	1,698
Loss (gain) on sales of investment securities	(188)	-	(192)
Loss on disposal of fixed assets	12	9	16
Loss on business restructuring	52	48	154
Earthquake-related losses	-	-	74
Increase (decrease) in allowance for doubtful accounts	(3)	4	(6)
Increase (decrease) in reserve for bonuses	(57)	28	(417)
Increase (decrease) in reserve for directors' retirement allowances	(2)	(21)	(2)
Increase (decrease) in reserve for retirement benefits	83	91	168
Interest and dividends received	(18)	(15)	(36)
Interest expenses	27	53	58
Foreign exchange loss (gain)	(5)	55	210
Gain on sales of tangible fixed assets	(0)	(1)	(1)
Decrease (increase) in notes and accounts receivable	533	(975)	275
Decrease (increase) in inventories	(973)	(231)	(1,694)
Decrease (increase) in prepaid expenses	(46)	(55)	(52)
Decrease (increase) in accounts receivable - others	44	(4)	46
Increase (decrease) in notes and accounts payable	(76)	(374)	133
Others	(96)	71	(156)
	2,784	2,045	5,527
Interest and dividends received	18	13	36
Interest paid	(27)	(53)	(58)
Payments related to losses on business restructuring	(52)	(46)	(154)
Payments associated with earthquake-related losses	-	-	(74)
Income taxes paid	(1,411)	(1,118)	(2,402)
	1,311	840	2,873
Net cash used in investing activities			
Increase in time deposits	(100)	-	(100)
Decrease in time deposits	100	-	200
Purchase of tangible fixed assets	(1,083)	(701)	(3,130)
Proceeds from sales of tangible fixed assets	347	24	294
Purchase of intangible fixed assets	(820)	(325)	(947)
Proceeds from sales of investment securities	312	-	318
Others	4	(90)	83
	(1,239)	(1,092)	(3,281)
Net cash used in financing activities			
Increase (decrease) in short-term borrowings	(16)	24	(119)
Increase (decrease) in long-term debt	-	17	-
Proceeds from sales of treasury stock	14	-	37
Purchase of treasury stock	(5)	(1)	(8)
Cash dividends paid	(469)	(501)	(908)
	(476)	(461)	(999)
Effect of exchange rate changes on cash and cash equivalents	146	62	129
Net increase in cash and cash equivalents	(258)	(649)	(1,278)
Cash and cash equivalents at beginning of term	11,512	10,234	11,512
Cash and cash equivalents at end of term	11,254	9,584	10,234

Interim Kessan Report for the March 2006 Term (Non-consolidated)

November 7, 2005

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:	Tatsuo Narumi, Executive Officer, General Manager, Corporate Planning & Administration Division Phone: (03) 5789-2500
Date of Board of Directors' meeting for approval of financial results:	November 4, 2005
Date of first payment of interim dividends:	December 7, 2005
Adoption of system of interim dividends:	Yes
Application of unit trading system:	Yes (100 shares per unit)

1. Non-consolidated operating results (April 1, 2005 to September 30, 2005)

(1) Non-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)	%
September 30, 2005	27,796	5.0	2,396	(12.6)	2,593	(10.6)
September 30, 2004	26,470	7.6	2,740	10.0	2,900	16.4
March 31, 2005	52,893		5,342		5,719	

	Net income		Net income per share
	(Millions of yen)	%	(Yen)
September 30, 2005	1,545	(15.9)	49.26
September 30, 2004	1,838	20.1	58.59
March 31, 2005	3,660		116.66

(Notes)

1. Average number of outstanding shares during the term (non-consolidated):
   September 2005 term: 31,381,058 shares   September 2004 term: 31,372,491 shares
   March 2005 term: 31,374,259 shares
2. Changes in accounting methods: No
3. 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, 2005	15.00	-
September 30, 2004	14.00	-
March 31, 2005	-	30.00

(3) Non-consolidated financial position

	Total assets	Shareholders' equity	Equity ratio	Shareholders' equity per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
September 30, 2005	55,072	39,869	72.4	1,270.51
September 30, 2004	53,036	37,412	70.5	1,192.48
March 31, 2005	54,666	38,822	71.0	1,237.13

(Notes)

1. Number of outstanding shares at end of term (non-consolidated):
   September 2005 term: 31,380,685 shares   September 2004 term: 31,374,025 shares
   March 2005 term: 31,381,470 shares

2. Number of treasury stock at end of term:
   September 2005 term: 620,484 shares   September 2004 term: 627,144 shares
   March 2005 term: 619,699 shares

2. Non-consolidated forecasts for March 2006 term (From April 1, 2005 to March 31, 2006)

	Net sales	Ordinary profit	Net income	Annual dividends per share	
				Term end	
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Yen)	(Yen)
Annual	55,550	5,720	3,450	15.00	30.00

(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.

Non-consolidated balance sheets

Millions of yen	September 30, 2004	%	September 30, 2005	%	March 31, 2005	%
Current assets						
Cash	9,127		6,573		7,831	
Notes receivable	4,005		3,764		3,676	
Accounts receivable	8,546		9,863		8,688	
Inventories	3,530		3,494		4,040	
Others	1,408		1,555		1,827	
Allowance for doubtful accounts	(14)		(8)		(17)	
Total current assets	26,603	50.2	25,242	45.8	26,047	47.6
Fixed assets						
Tangible fixed assets						
Buildings	3,933		3,929		3,829	
Machinery and equipment	1,556		1,484		1,628	
Land	4,996		5,616		5,612	
Others	723		553		734	
	11,210	21.1	11,584	21.0	11,805	21.6
Intangible fixed assets	1,644	3.1	1,532	2.8	1,518	2.7
Investments and other assets						
Capital stock of affiliated companies	10,510		13,505		12,506	
Others	3,169		3,302		2,890	
Allowance for doubtful accounts	(102)		(95)		(101)	
	13,578	25.6	16,713	30.4	15,295	28.1
Total fixed assets	26,432	49.8	29,830	54.2	28,619	52.4
Total assets	**53,036**	**100.0**	**55,072**	**100.0**	**54,666**	**100.0**

Millions of yen	September 30, 2004	%	September 30, 2005	%	March 31, 2005	%
Current liabilities						
Notes payable	2,011		1,926		2,354	
Accounts payable	2,326		2,234		2,385	
Accounts payable - others	7,028		7,320		7,478	
Income taxes payable	1,161		837		1,043	
Reserve for bonuses	363		-		-	
Allowance for directors' bonuses	-		-		30	
Others	2,139		2,147		1,891	
	15,030	28.4	14,466	26.3	15,182	27.8
Long-term liabilities						
Retirement benefits	112		289		197	
Reserve for directors' retirement allowances	267		245		267	
Others	213		200		195	
	593	1.1	736	1.3	661	1.2
	15,623	29.5	15,203	27.6	15,843	29.0
Shareholders' equity						
Common stock	6,331	11.9	6,331	11.5	6,331	11.6
Capital reserves						
Additional paid-in capital	5,789		5,789		5,789	
Capital reserves - other	0		1		1	
	5,790	10.9	5,791	10.5	5,791	10.6
Retained earnings						
Legal income reserves	474		474		474	
Voluntary reserves - total	22,271		24,937		22,237	
Unappropriated retained earnings	4,092		3,852		5,508	
	26,838	50.6	29,265	53.2	28,221	51.6
Unrealized gains or losses on other securities	5	0.0	18	0.0	13	0.0
Treasury stock	(1,552)	(2.9)	(1,536)	(2.8)	(1,534)	(2.8)
Total shareholders' equity	37,412	70.5	39,869	72.4	38,822	71.0
Total liabilities and shareholders' equity	**53,036**	**100.0**	**55,072**	**100.0**	**54,666**	**100.0**

Non-consolidated statements of income

Millions of yen	Interim period ended September 30, 2004	%	Interim period ended September 30, 2005	%	Year ended March 31, 2005	%
Net sales	26,470	100.0	27,796	100.0	52,893	100.0
Cost of sales	14,636	55.3	16,018	57.6	29,484	55.7
Gross profit on sales	11,833	44.7	11,777	42.4	23,408	44.3
Selling, general and administrative expenses	9,092	34.4	9,381	33.8	18,066	34.2
Operating income	2,740	10.4	2,396	8.6	5,342	10.1
Non operating income	210	0.8	233	0.8	453	0.8
Non operating expenses	50	0.2	35	0.1	76	0.1
Ordinary profit	2,900	11.0	2,593	9.3	5,719	10.8
Extraordinary gain	199	0.8	10	0.0	192	0.4
Extraordinary loss	19	0.1	6	0.0	96	0.2
Net income before taxes	3,081	11.6	2,597	9.3	5,814	11.0
Corporate, residents and enterprises taxes	1,197		924		2,120	
Deferred taxes	45		127		33	
	1,243	4.7	1,051	3.7	2,154	4.1
Net income	1,838	6.9	1,545	5.6	3,660	6.9
Retained earnings brought forward from previous year	2,253		2,306		2,253	
Reversal of provision for tax effects	-		-		33	
Interim dividends	-		-		439	
Unappropriated retained earnings	4,092		3,852		5,508	