Kessan Report for the March 2006 Term (Consolidated)

May 11, 2006

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, Senior Executive Officer, General Manager, Corporate Planning & Administration Division Phone: (03) 5789-2500
Date of Board of Directors' meeting for approval of financial results:	May 11, 2006
Adoption of U.S. accounting standards:	No

1. Consolidated operating results (from April 1, 2005 to March 31, 2006)

(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)	%
March 31, 2006	68,964	11.7	5,222	1.5	5,400	1.7
March 31, 2005	61,752	4.9	5,144	(6.6)	5,309	2.1

	Net income		Net income per share	Net income per share, fully diluted	Return on shareholders' equity	Ratio of ordinary profit to total assets	Ratio of ordinary profit to net sales
	(Millions of yen)	%	(Yen)	(Yen)	%	%	%
March 31, 2006	2,646	(12.1)	84.32	-	7.5	9.5	7.8
March 31, 2005	3,012	8.0	96.01	95.99	9.2	10.5	8.6

(Notes)

1. Gains or losses on investments through equity method accounting:
   March 2006 term: - March 2005 term: -
2. Average number of outstanding shares during the term (consolidated):
   March 2006 term: 31,387,823 shares March 2005 term: 31,374,259 shares
3. Changes in accounting methods: Yes
4. The percentages shown next to net sales, operating income, ordinary profit and net income represent year-on-year changes.

(2) Consolidated financial position

	Total assets	Shareholders' equity	Equity ratio	Shareholders' equity per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
March 31, 2006	61,624	36,119	58.6	1,149.80
March 31, 2005	51,705	34,008	65.8	1,083.72

(Note)

Number of outstanding shares at end of term (consolidated):
March 2006 term: 31,413,816 shares March 2005 term: 31,381,470 shares

(3) Consolidated cash flows statement

	Net cash provided by operating activities	Net cash used in investing activities	Net cash provided by financing activities	Cash and cash equivalents at end of term
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
March 31, 2006	4,801	(6,575)	2,069	10,751
March 31, 2005	2,873	(3,281)	(999)	10,234

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

Consolidated subsidiaries: 25

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): 9 (elimination): —

Equity method (new): — (elimination): —

2. Consolidated forecasts for March 2007 term (from April 1, 2006 to March 31, 2007)

	Net sales	Ordinary profit	Net income
	(Millions of yen)	(Millions of yen)	(Millions of yen)
Interim term	39,000	2,850	1,600
Annual	80,000	6,000	3,450

(N.b.) Estimated earnings per share (annual): 109.82 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. For the information pertaining to the forecast, please refer to the page 12.

1. Group Organization

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

All twenty five subsidiaries involved in the Company's business are consolidated subsidiaries and their roles are as shown below.

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

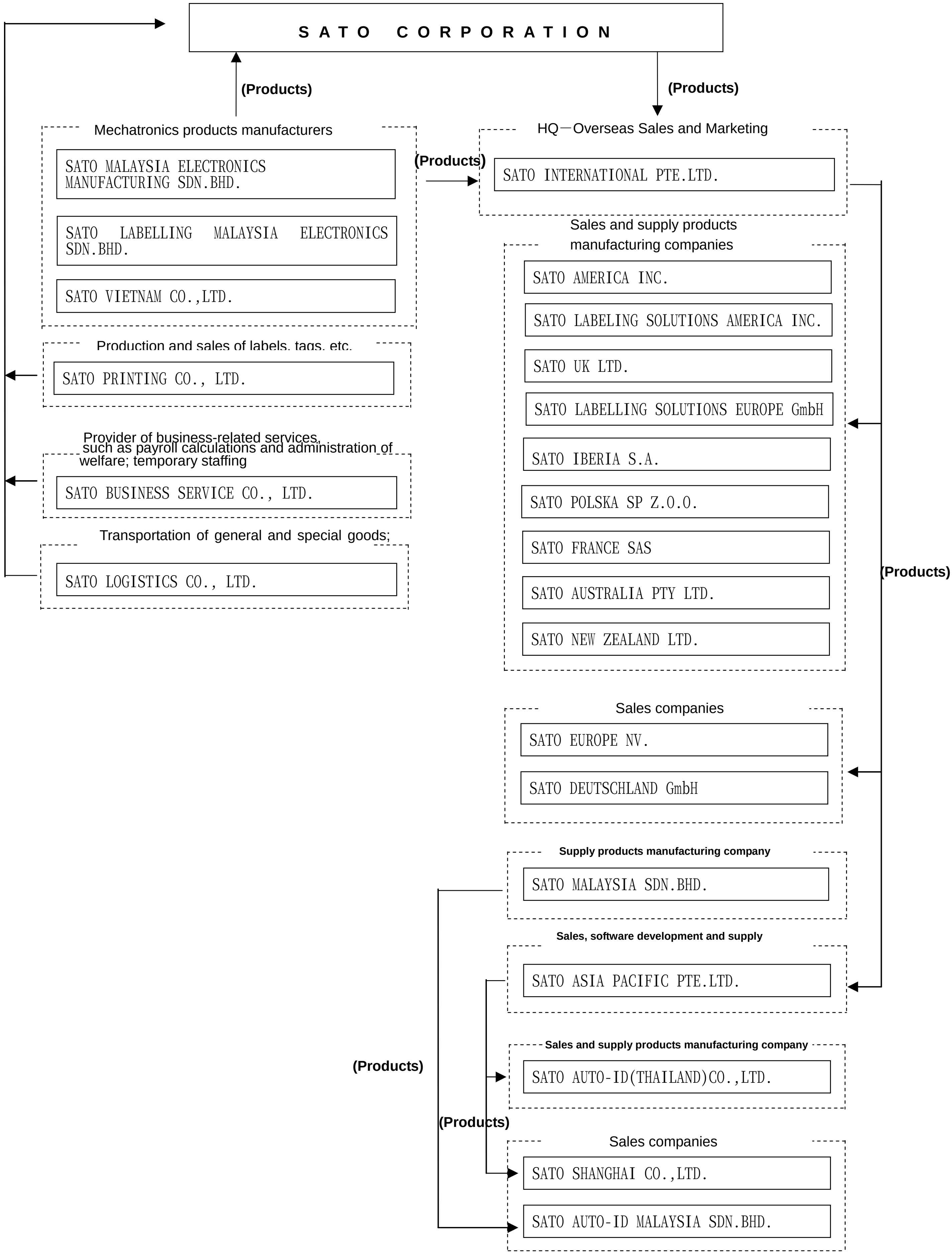
Business	Main products and services	Contents	Companies
Mechatronic product business			
Electronic printers	Electronic printers, labeling robots, automatic labelers, maintenance services	Production	SATO CORPORATION SATO MALAYSIA ELECTRONICS MANUFACTURING SDN. BHD. (Malaysia) (2 companies)
		Sales	SATO CORPORATION SATO INTERNATIONAL PTE. LTD. (Singapore) *Sales to the following subsidiaries* SATO AMERICA INC. (U.S.A.) SATO LABELING SOLUTIONS AMERICA INC. (U.S.A.) SATO UK LTD. (U.K.) SATO LABELLING SOLUTIONS EUROPE GmbH (Germany) SATO IBERIA S.A. (Spain) SATO EUROPE NV. (Belgium) SATO DEUTSCHLAND GmbH (Germany) SATO POLSKA SP Z.O.O. (Poland) SATO FRANCE SAS (France) SATO ASIA PACIFIC PTE. LTD. (Singapore) SATO AUTO-ID MALAYSIA SDN. BHD. (Malaysia) SATO AUTO-ID (THAILAND) CO., LTD. (Thailand) SATO SHANGHAI CO., LTD. (China) SATO AUSTRALIA PTY LTD. (Australia) SATO NEW ZEALAND LTD. (New Zealand) (17 companies)
Hand labelers	One line hand labelers, multiline hand labelers, software, maintenance services	Production	SATO LABELLING MALAYSIA ELECTRONICS SDN. BHD. (Malaysia) SATO VIETNAM CO., LTD. (Vietnam) (2 companies)
		Sales	SATO CORPORATION SATO INTERNATIONAL PTE. LTD. (Singapore) *Sales to the following subsidiaries* SATO AMERICA INC. (U.S.A.) SATO LABELING SOLUTIONS AMERICA INC. (U.S.A.) SATO UK LTD. (U.K.) SATO LABELLING SOLUTIONS EUROPE GmbH (Germany) SATO IBERIA S.A. (Spain) SATO EUROPE NV. (Belgium) SATO DEUTSCHLAND GmbH (Germany) SATO POLSKA SP Z.O.O. (Poland) SATO FRANCE SAS (France) SATO ASIA PACIFIC PTE. LTD. (Singapore) SATO AUTO-ID MALAYSIA SDN. BHD. (Malaysia) SATO AUTO-ID (THAILAND) CO., LTD. (Thailand) SATO SHANGHAI CO., LTD. (China) SATO AUSTRALIA PTY LTD. (Australia) SATO NEW ZEALAND LTD. (New Zealand) (17 companies)

Business		Main products and services	Contents	Companies
Supply products business				
	IC tags/labels, labels, tags, tickets, ribbons, MC-cards and other supply products	Electronic printer labels/tags, hand labeler labels, IC tags/labels, labels, tickets, ribbons, MC-cards	Production	SATO CORPORATION SATO AMERICA INC. (U.S.A.) SATO LABELING SOLUTIONS AMERICA INC. (U.S.A.) SATO UK LTD. (U.K.) SATO LABELLING SOLUTIONS EUROPE GmbH (Germany) SATO IBERIA S.A. (Spain) SATO ASIA PACIFIC PTE. LTD. (Singapore) SATO POLSKA SP Z.O.O. (Poland) SATO FRANCE SAS (France) SATO MALAYSIA SDN. BHD. (Malaysia) SATO AUTO-ID (THAILAND) CO., LTD. (Thailand) SATO AUSTRALIA PTY LTD. (Australia) SATO NEW ZEALAND LTD. (New Zealand) (13 companies)
			Sales	SATO CORPORATION SATO INTERNATIONAL PTE. LTD. (Singapore) *Sales to the following subsidiaries* SATO AMERICA INC. (U.S.A.) SATO LABELING SOLUTIONS AMERICA INC. (U.S.A.) SATO UK LTD. (U.K.) SATO LABELLING SOLUTIONS EUROPE GmbH (Germany) SATO IBERIA S.A. (Spain) SATO EUROPE NV. (Belgium) SATO DEUTSCHLAND GmbH (Germany) SATO POLSKA SP Z.O.O. (Poland) SATO FRANCE SAS (France) SATO ASIA PACIFIC PTE. LTD. (Singapore) SATO AUTO-ID MALAYSIA SDN. BHD. (Malaysia) SATO AUTO-ID (THAILAND) CO., LTD. (Thailand) SATO SHANGHAI CO., LTD. (China) SATO AUSTRALIA PTY LTD. (Australia) SATO NEW ZEALAND LTD. (New Zealand) (17 companies)
Production and sales of labels, tags, etc.				SATO PRINTING CO., LTD.
Provider of business-related services, such as payroll calculations and administration of welfare; temporary staffing				SATO BUSINESS SERVICE CO., LTD.
Transportation of general and special goods; inspection and assembly of electronic equipment				SATO LOGISTICS CO., LTD.

(Notes)

1. In addition to the above, there is also SATO HOLDING (THAILAND) CO., LTD. (a holding company).
2. SATO MALAYSIA ELECTRONICS MANUFACTURING SDN. BHD., SATO VIETNAM CO., LTD. and SATO INTERNATIONAL PTE. LTD., SATO PRINTING CO., LTD., SATO BUSINESS SERVICE CO., LTD. and SATO LOGISTICS CO., LTD. are subsidiaries of the Company.
3. SATO AMERICA INC., SATO UK LTD., SATO EUROPE NV., SATO ASIA PACIFIC PTE. LTD., SATO IBERIA S.A., SATO LABELING SOLUTIONS AMERICA INC. and SATO LABELLING SOLUTIONS EUROPE GmbH are subsidiaries of SATO INTERNATIONAL PTE. LTD.
4. SATO SHANGHAI CO., LTD., SATO MALAYSIA SDN. BHD., SATO HOLDING (THAILAND) CO., LTD., SATO AUSTRALIA PTY LTD. and SATO NEW ZEALAND LTD. are subsidiaries of SATO ASIA PACIFIC PTE. LTD.
5. SATO LABELLING MALAYSIA ELECTRONICS SDN. BHD. is a subsidiary of SATO MALAYSIA ELECTRONICS MANUFACTURING SDN. BHD.
6. SATO FRANCE SAS, SATO DEUTSCHLAND GmbH and SATO POLSKA SP Z.O.O. are subsidiaries of SATO EUROPE NV.
7. SATO AUTO-ID MALAYSIA SDN. BHD. is a subsidiary of SATO MALAYSIA SDN. BHD.
8. SATO AUTO-ID (THAILAND) CO., LTD. is a subsidiary of SATO HOLDING (THAILAND) CO., LTD.

The business relationships of the Group described above are shown in diagram form below.



2. Management Policies

1. Fundamental policy

Since its founding, the Sato group has pursued a policy of “total commitment to the highest standards of a firm whose business is production and sales,” under the watchword “never-ending creativity.” The aim of this fundamental policy is to contribute to society by promoting the 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.

In line with its financial performance, the Company declared total dividends for the year ended March 31, 2006 of ¥31 per share (including an interim dividend of ¥15). Compared to the previous term, this represents an ordinary-dividend increase of ¥1 per share.

3. Management indices

The Sato Group’s key management indices are return on equity (ROE) and net income per share. 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 electronic 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 is pursuing the following initiatives overseas in order to achieve global implementation of the DCS & Labeling concept that it has successfully implemented in Japan.

- Quickly realizing the fruits of acquisitions and strengthening sales force

  Following its acquisition of the barcode systems business of Checkpoint Systems, Inc., in January 2006, the Company established five new overseas sales companies. It will endeavor to expand its international sales presence by integrating these companies into its existing network and striving diligently to achieve synergies among these companies.

- Achieving consistent profitability in overseas operations

  The Company has already attained profitability in its North American operations through the successful development of new sales channels. In Asia, operations continue to generate steady increases in profitability. The problem has been Europe. While the losses in Europe have been pared down through rationalization, Sato will need to make further improvements in order to achieve consistent profitability in its overseas operations.

- Further development of supply capabilities for consumables and strengthening of maintenance services

  Sato's overseas sales subsidiaries have operated manufacturing plants for supply products in the US, UK, France, Poland, Singapore, Thailand and Malaysia. In January 2006, it acquired companies in Germany, Spain, Australia and New Zealand, expanding this sales/consumables manufacturing presence to 11 countries. It intends to continue building its supply capabilities around the world for consumables such as labels, tags, and RFID supplies. Further, to encourage international customers to continue using its products, the Company will add maintenance-service capabilities to these subsidiaries and simultaneously enhance the servicing capabilities of its major distributors through technical guidance programs.

- Enhancing manufacturing efficiency and product quality through closer collaboration between R&D and manufacturing

  The Company is working to strengthen collaboration between its R&D Division, which is responsible for design and trial manufacturing of new mechatronic products, and its plants in Malaysia and Vietnam, which are involved in mass-producing such products. Through better collaboration, the parties will be able to work jointly on issues such as improving manufacturing efficiency, reducing costs, and increasing product quality. Sato has also been endeavoring to rapidly increase capacity utilization at its plant in Vietnam by shifting production from its Malaysian plant. The Vietnam plant began operations in July 2005.

b. Continued growth through stimulation of new demand in the Japanese market

In the Japanese market, Sato will rely on accurate research of market trends and changes in the business environment to ensure a flexible response to the needs of the market in the era of ubiquitous marking. In the medical field, in addition to growing applications in medical error prevention and internal hospital management, Sato expects barcode demand to increase for medication management and equipment identification uses. In the area of product manufacturing and food processing, traceability systems are finding rapidly growing uses in production-history management, driven by demand for better control over components and raw materials, and for safety and peace of mind. In response to an increasing numbers of inquiries for RFID technologies, Sato has established in April 2006, a new RFID sales department within its sales division that will provide guidance to sales offices and develop new RFID solutions. The Group will commit itself fully to the development of new solutions that enhance "accuracy, labor savings, and resource conservation" in these and all other manufacturing sites and distribution workplaces, and endeavor to translate these efforts into continued growth.

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

Domestically, the Company will expand and improve its manufacturing facilities for labels and will take steps to increase productivity and product quality and to reduce costs.

In January 2006, the Company began construction of its new Nishinihon Logistics distribution center in Yamatokoriyama, Nara Prefecture. Operations are expected to begin in July 2006 and the Company believes that the new center will contribute to improved efficiency of distribution in western Japan.

d. Strengthening of new-product development function

In order to reflect the diverse needs of customers in Japan and overseas, the Company 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. Commencement of operations at four domestic subsidiaries

Between January and April 2006, the Company established four wholly owned subsidiaries in Japan.

In January: Sato Printing Co., Ltd. (production and sales of seals, labels and tags)
In February: Sato Business Service Co., Ltd. (temporary staffing agency; provision of business services, including payroll calculation and welfare administration)
In March: Sato Logistics Co., Ltd. (transportation of general and special goods; inspection and assembly of electronic equipment)
In April: Sato System Support Co., Ltd. (maintenance services for electronic printers)

These subsidiaries were established to reduce the costs of manufacturing seals and labels, to improve the efficiency of distribution and back-office departments, and to expand maintenance services to customers outside the Group. Another objective was to provide young and talented mid-level employees with opportunities for hands-on management experience. For a business aiming to sustain growth, the nurturing of managerial talent for the next generation is a crucial task. More than that, the Company believes that such measures contribute to the strengthening of its management foundations over the medium and long term and thus also to the enhancing of shareholder value. Its aim will be to put these subsidiaries on a successful operational footing as soon as possible so that they will be able to contribute to the financial results of the consolidated group.

f. 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.

In addition to establishing domestic subsidiaries, the Company will continue promoting measures aimed at revitalizing the organization and individual employees. These include training programs that nurture next-generation leaders and the utilization of the Company’s “three-line reporting system” (Sato’s unique knowledge-management system). In addition, Sato has sought to create a corporate culture that welcomes contributions from women and older workers, viewing this as one solution to the problem of securing human resources in an aging population. The Company introduced an annual salary system for all employees in April 2005. It will continue endeavoring to enhance human productivity hereafter, by revising its personnel system with a focus on rewarding performance.

g. Promotion of corporate social responsibility (CSR)

While emphasizing the contribution of its core business to society, the Company 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. Risk factors

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 (electronic data interchange) 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 RFID technologies that enable users to input large amounts of information into IC tags/labels. The Sato Group believes that the growing popularity of RFID represents an opportunity to expand its business. The Company has engaged in research and development on these technologies and has introduced a number of RFID-related products in selected markets. At the same time, while they offer the advantage of contact-free recognition of multiple items via radio wave, RFID 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 RFID products.

b. Overseas business activity

- Production system

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

With respect to supply products, the Company has built production and procurement capabilities in each region that are aimed at reducing regional differences in price and delivery times and at decreasing delivery costs.

- Overseas sales

  The Sato Group sells its products through a number of sales subsidiaries in North America, Europe, Asia and Oceania. 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.

- 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 administration 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.

- Regarding country risk

  As the above indicates, the Sato Group is engaged in production and sales in a wide variety of countries. Unforeseen circumstances in such countries, including economic fluctuations, revisions of laws and regulations, and the outbreak of armed conflict, natural disasters, and infectious disease epidemics could have an impact on the Group’s financial results.

3. Results of Operations and Cash Flows

1. Results of operations

a. Summary of financial performance

Consolidated net sales for the fiscal year under review totaled ¥68,964 million, a significant increase (+11.7% year-on-year) from the previous fiscal year and the seventh consecutive year of revenue growth.

Domestic sales rose to ¥53,272 million (+5.7%). The domestic sales operation kept busy one through the year due to increase of the demands for negotiations on DCS (Data Collection System), an automated recognition technology used in like bar codes and 2-D codes across the various industries including medical, retailing and distribution, manufacturing, and food processing industries, etc. In the medical sector, for example, Sato's L'esprit series of tabletop barcode-use electronic printers has been well received and since release, and grow to be a hot-selling product. Reflecting a recovery in consumption, requirements for negotiations are increasing for Sato's "markdown" (price reduction management) systems for large retailers, and traceability systems used by the home electronics, electronic component manufacturing, and beverage and food processing industries. In addition, responding to the increase in number of RFID-related inquiries the Company has opened an RFID showroom in our head office building in order to demonstrate practical applications of these devices and promote their popularization. Three new subsidiaries were also established: in January, SATO PRINTING CO., LTD., the first domestic label and tag manufacturer and sales in Kitakami-shi, Iwate; in February, SATO BUSINESS SERVICE CO., LTD., agent services for personnel placement, and payroll and welfare administration etc., in Shibuya-ku, Tokyo; and in March, SATO LOGISTICS CO., LTD., cargo service and inspection assembly service for electronic equipment in Shibuya-ku, Tokyo.

Overseas sales grew to ¥15,692 million (+38.3%). Sales were driven by the North American area which take off growth path and were also strong in Asia. Sales from SATO FRANCE SAS, which acquired and became part of the Sato Group in February 2005 and the sales company, which was established by acquisition of the business from Checkpoint systems of the U.S. at the end of January 2006 were also contributed to increase of overseas sales. The cost of these acquisitions are approximately $8.6 million for goodwill and approximately $30 million for equipment and assumed liabilities, but the acquisitions were significant for securing a foothold for the global development of "DCS & Labeling." In addition to gaining new label production facilities in Europe, North America, and the Asia-Australia region, the Company also took over customer accounts in Europe and North America, and going forward we will make a full-fledged effort to achieve synergies with existing sales centers. In terms of manufacturing, Sato's second factory for mechatronic products followed by Malaysia was completed, and commenced production of hand labelers in July 2005. The Company will improve overseas production efficiency in future by promoting transfer of the production to this Vietnam factory and increase of production including improvement of technology and cost reduction at Malaysia factory, a main electronic printer manufacturing factory.

In terms of profit, domestic business was negatively impacted in the first quarters from the end of sales relating to consumption tax-inclusive price labels which boosted year-earlier sales and profit and from increase in costs associated with new electronic printers and other products. From the second quarter onward, however, as a result of efforts to increase sales and reduce costs, the Company improved profit margins steadily. Overseas, the North American business took a turn to profitability. Efforts to improve profitability in Europe included some personnel cut, which resulted in the recording of extraordinary losses, but with reductions in SG&A expenses a slight improvement was seen in operating income. We will strive going forward to show a significant improvement in profitability by taking advantage of synergies with acquired businesses and pursuing improved operational efficiency. Sales and profits in Asia remained solid and marked significant growth from the previous year.

As result of these activities, consolidated net sales in the fiscal year ended March 2006 amounted to 68,964 million yen (+11.7%). Operating income, ordinary profit and net income totaled 5,222 million yen (+1.5%), 5,400 million yen (+1.7%), and 2,646 million yen (-12.1%), respectively.

Segment information is as follows:

(a) Mechatronic products

The segment posted operating income of ¥2,538 million (-9.5%) on net sales of ¥30,336 million (+9.7%).

(b) Supply products

The segment posted operating income of ¥2,684 million (+14.7%) on net sales of ¥38,628 million (+13.3%).

b. Forecast for the year ending March 2007

In the domestic market, the Company expects continued growth in demand for bar codes and 2-D codes in a wide range of sectors, including processed foods, medical care, major retailers, automobile components and semiconductor manufacturing. Use of 2-D codes has been growing lately in areas that touch the lives of consumers, notably in production history systems for fresh foods (agricultural produce) and seals that can be read by cell phones.

Overseas, the Company will continue efforts to boost sales through marketing strategies that are fine-tuned to local markets. It will also upgrade and expand its production and delivery capability for supply products in line with its objective of implementing the DCS & Labeling concept in markets throughout the world.

The Sato Group will continue efforts to develop new applications for bar codes, 2-D codes and RFID in all sectors, both at home and abroad, by combining auto-identification technologies capitalizing on the features of each system and will focus on training of human resources to increase the added value created by people. The aim is to deliver optimal solutions to customers, thereby helping to expand sales. The Company also intends to contribute to society through the pursuit of greater accuracy, energy saving and saving of natural resources and to reduce costs and improve profits throughout the group as a whole by raising productivity.

The Company forecasts consolidated results for the year ending March 2007 as follows: net sales: ¥80,000 million (+16.0%); operating income: ¥6,000 million (+14.9%); ordinary profit: ¥6,000 million (+11.1%); net income: ¥3,450 million (+30.3%).

(Reference data)

Consolidated forecasts for March 2007 term (April 1, 2006 – March 31, 2007)

	Interim		Annual	
	Millions of yen	Change (%)	Millions of yen	Change (%)
Net sales	39,000	+18.5	80,000	+16.0
Operating income	2,850	+17.1	6,000	+14.9
Ordinary profit	2,850	+14.4	6,000	+11.1
Net income	1,600	+21.1	3,450	+30.3

Segment sales forecasts are given below.

[Product segment forecasts]

(a) Mechatronics products: annual sales of ¥32,950 million +8.6%).

(b) Supply products: annual sales of ¥47,050 million (+21.8%).

2. Cash flows in the year to March 2006

Consolidated cash and cash equivalents (referred to below as “cash”) increased by ¥516 million compared to the previous year and totaled ¥10,751 million.

The major cash flow-related factors for the March 2006 term are outlined below.

Net cash provided by operating activities

Net cash provided by operating activities amounted to ¥4,801 million.

This primarily reflected the recognition of ¥4,898 million in income before adjustments for income taxes and of ¥1,968 million in depreciation expenses. In addition, accounts payable increased by ¥694 million. These gains were partially offset by a ¥1,445 million increase in notes and accounts receivable, a ¥753 million increase in inventories, and a ¥129 million decrease in notes and accounts payable, as well as a ¥1,922 million increase in income taxes paid.

Net cash used in investing activities

Net cash used in investing activities totaled ¥6,575 million.

This mainly reflected the result of the acquisition of ¥1,338 million in tangible fixed assets and of ¥644 million in intangible fixed assets, and of payments of ¥4,268 million for business acquisitions.

Net cash provided by financing activities

Net cash provided by financing activities amounted to ¥2,069 million.

This was principally due to an increase of short-term borrowings of ¥2,925 million, which was partially reduced by dividend payments of ¥971 million.

3. Trend in cash flow indices

	March 31, 2003	March 31, 2004	March 31, 2005	March 31, 2006
Equity ratio (%)	58.8	64.0	65.8	58.6
Equity ratio based on market value (%)	126.3	171.8	163.9	143.8
Debt-repayment period (yrs)	0.1	0.1	0.2	0.8
Interest-coverage ratio (%)	88.6	117.8	48.8	46.8

(Notes)

1. The equity ratio is equal to shareholders' equity divided by total assets.
2. The equity ratio based on market value is equal to total stock market capitalization divided by total assets.
3. The debt-repayment period is equal to interest-bearing liabilities divided by operating cash flow.
4. The interest-coverage ratio is equal to operating cash flow divided by interest payments.
5. All of the above indicators are calculated on a consolidated basis.
6. Stock market capitalization is calculated by multiplying the closing share price on the final trading day of the fiscal year by the total number of outstanding shares (excluding treasury stock) as of the corresponding fiscal year-end.
7. Operating cash flow equals total net cash flows provided by operating activities as stated in the consolidated statements of cash flows. Interest-bearing liabilities include all liabilities on which interest is paid, as stated in the consolidated balance sheet. Interest payments are equal to interest paid as stated in the consolidated statements of cash flows.

Consolidated balance sheet

As of March 31; Millions of yen	2005	%	2006	%	Year-on-year change
Current assets					
Cash	10,184		10,700		516
Notes and accounts receivable	14,319		18,169		3,850
Marketable securities	50		50		0
Inventories	7,581		10,144		2,562
Deferred credit	547		613		66
Deferred taxes	400		393		(6)
Others	527		886		358
Allowance for doubtful accounts	(68)		(88)		(20)
Total current assets	33,542	64.9	40,870	66.3	7,328
Fixed assets					
Tangible fixed assets					
Buildings and structures	8,756		9,586		
Accumulated depreciation	4,030		4,328		
	4,725		5,258		533
Machinery, equipment and delivery equipment	7,297		8,296		
Accumulated depreciation	5,008		5,634		
	2,288		2,662		373
Tools, furniture and fixtures	4,018		4,598		
Accumulated depreciation	2,907		3,295		
	1,111		1,302		191
Land	5,612		5,658		45
Construction in progress	540		298		(242)
	14,278	27.5	15,181	24.7	902
Intangible fixed assets					
Consolidation adjustment account	124		1,162		1,037
Leaseholds	451		490		38
Others	1,779		1,936		157
	2,354	4.6	3,589	5.8	1,234
Investments and other assets					
Investment securities	156		250		94
Long-term loans	56		38		(17)
Guarantee deposits	670		971		300
Deferred taxes	338		358		20
Others	408		426		18
Allowance for doubtful accounts	(99)		(62)		37
	1,530	3.0	1,983	3.2	453
Total fixed assets	18,162	35.1	20,753	33.7	2,591
Total assets	**51,705**	**100.0**	**61,624**	**100.0**	**9,919**

As of March 31; Millions of yen	2005	%	2006	%	Year-on-year change
Current liabilities					
Notes and accounts payable	5,301		5,531		229
Short-term borrowings	350		3,465		3,114
Accounts payable	7,820		8,994		1,173
Income taxes payable - other	1,090		1,354		263
Reserve for bonuses	63		189		126
Allowance for Directors' bonuses	30		54		24
Notes payable - plant and equipment	23		320		296
Others	2,341		3,533		1,191
	17,022	32.9	23,442	38.1	6,419
Long-term liabilities					
Reserve for employees' retirement benefits	197		1,591		1,393
Reserve for directors' retirement allowances	267		245		(21)
Others	208		225		17
	673	1.3	2,062	3.3	1,388
Total liabilities	17,696	34.2	25,504	41.4	7,808
Minority interest in consolidated subsidiaries	-	-	-	-	-
Shareholders' equity					
Common stock	6,331	12.2	6,331	10.3	-
Capital reserves	5,791	11.2	5,798	9.4	7
Retained earnings	24,143	46.8	24,918	40.5	774
Other investment valuation expenses	13	0.0	26	0.0	13
Foreign exchange adjustment account	(736)	(1.4)	499	0.8	1,236
Treasury stock	(1,534)	(3.0)	(1,454)	(2.4)	79
Total shareholders' equity	34,008	65.8	36,119	58.6	2,110
Total liabilities, minority interests and shareholders' equity	**51,705**	**100.0**	**61,624**	**100.0**	**9,919**

Consolidated statements of income

Years ended March 31; Millions of yen	2005	%	2006	%	Year-on-year change
Net sales	61,752	100.0	68,964	100.0	7,212
Cost of sales	33,330	54.0	38,371	55.6	5,040
Gross profit on sales	28,422	46.0	30,593	44.4	2,171
Selling, general and administrative expenses	23,277	37.7	25,371	36.8	2,094
Operating income	5,144	8.3	5,222	7.6	77
Non operating income					
Interest income	33		36		
Dividend income	3		1		
Gain on sale of investment securities	-		2		
Foreign exchange gains	-		276		
Gain on cancellation of endowment insurance	209		-		
Product warranty fees	-		27		
Rental income	50		38		
Commissions and fees	9		10		
Others	83		168		
	389	0.6	561	0.8	171
Non operating expenses					
Interest expenses	58		102		
Loss on disposal of inventories	8		57		
Foreign exchange loss	32		-		
Valuation loss on swap transaction	36		107		
Others	88		115		
	225	0.3	383	0.6	158
Ordinary profit	5,309	8.6	5,400	7.8	90
Extraordinary gains					
Gain on sale of investment securities	192		1		
Gain on cancellation of corporate pensions	-		41		
Gain on sales of fixed assets	1		2		
	193	0.3	45	0.1	(148)
Extraordinary losses					
Loss on business restructuring	154		251		
Expenses related to business acquisitions	-		216		
Earthquake-related losses	74		-		
Loss on disposal of fixed assets	16		15		
Impairment losses	3		-		
Loss on sale of investments	3		-		
Others	-		62		
	252	0.4	546	0.8	294
Income before adjustments for income taxes	5,251	8.5	4,898	7.1	(352)
Corporate, inhabitant and enterprise taxes	2,169		2,275		
Deferred taxes	62		(23)		
	2,232	3.6	2,251	3.3	19
Minority interest in income of consolidated subsidiaries	6	0.0	-	-	(6)
Net income	3,012	4.9	2,646	3.8	(365)

Consolidated statements of retained earnings

Years ended March 31; Millions of yen	**2005**	**2006**	**Year-on-year change**
Capital reserves			
Capital reserves at beginning of year	5,790	5,791	1
Increase in capital reserves			
Gain on sale of treasury stock	1	7	
	1	7	6
Capital reserves at end of year	5,791	5,798	7
Retained earnings			
Retained earnings at beginning of year	22,041	24,143	2,102
Increase in retained earnings			
Net income	3,012	2,646	
	3,012	2,646	(365)
Decrease in retained earnings			
Dividends - total	909	972	
Decrease due increase in unfunded reserves related to pension accounting at overseas subsidiaries	-	899	
	909	1,872	962
Retained earnings at end of year	24,143	24,918	774

Consolidated statements of cash flows

Years ended March 31; Millions of yen	2005	2006
Net cash provided by operating activities		
Income before adjustments for income taxes	5,251	4,898
Depreciation expenses	1,698	1,968
Amortization of consolidation adjustment account	-	61
Gain on sales of tangible fixed assets	(1)	(2)
Gain on sales of investment securities	(192)	(1)
Gain on sales of marketable securities	-	(2)
Loss on valuation of marketable securities	-	2
Loss on disposal of fixed assets	16	15
Loss on business restructuring	154	251
Expenses related to business acquisitions	-	216
Earthquake-related losses	74	-
Impairment losses	3	-
Loss on sale of investments	3	-
Increase (decrease) in allowance for doubtful accounts	(6)	(21)
Increase (decrease) in reserve for bonuses	(417)	143
Increase (decrease) in reserve for directors' retirement allowances	(2)	(21)
Reserve for retirement benefits	168	37
Interest and dividends received	(36)	(38)
Interest expenses	58	102
Foreign exchange loss and gain	210	550
Decrease (increase) in notes and accounts receivable	275	(1,445)
Decrease (increase) in inventories	(1,694)	(753)
Decrease (increase) in prepaid expenses	(52)	30
Decrease (increase) in accounts receivable	46	(64)
Increase (decrease) in notes and accounts payable	133	(129)
Increase (decrease) in accounts payable	787	694
Others	(951)	763
	5,527	7,256
Payments related to losses on business restructuring	(154)	(251)
Payments related to business acquisition expenses	-	(216)
Payments associated with earthquake-related losses	(74)	-
Interest and dividends received	36	38
Interest paid	(58)	(102)
Income taxes paid	(2,402)	(1,922)
	2,873	4,801

Years ended March 31; Millions of yen	2005	2006
Net cash used in investing activities		
Increase in time deposits	(100)	-
Decrease in time deposits	200	-
Proceeds from sales of marketable securities	-	13
Proceeds from sales of investment securities	318	1
Payments for investments in securities	-	(83)
Purchase of tangible fixed assets	(3,130)	(1,338)
Proceeds from sales of tangible fixed assets	294	61
Purchase of intangible fixed assets	(947)	(644)
Purchase of securities of subsidiaries accompanied with reclassification of consolidation	(358)	-
Expenses incurred for business acquisitions	-	(4,268)
Others	441	(318)
	(3,281)	(6,575)
Net cash used in financing activities		
Increase (decrease) in short-term borrowings	(119)	2,925
Increase (decrease) in long-term debt	-	28
Proceeds from sales of treasury stock	37	93
Purchase of treasury stock	(8)	(6)
Cash dividends paid	(908)	(971)
	(999)	2,069
Effect of exchange rate changes on cash and cash equivalents	129	222
Net increase in cash and cash equivalents	(1,278)	516
Cash and cash equivalents at beginning of year	11,512	10,234
Cash and cash equivalents at end of year	10,234	10,751

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

May 11, 2006

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, Senior Executive Officer, General Manager, Corporate Planning & Administration Division Phone: (03) 5789-2500
Date of Board of Directors' meeting for approval of financial results:	May 11, 2006
Scheduled date of dividend payment	June 23, 2006
Date of regular general meeting of shareholders:	June 22, 2006
Adoption of system of interim dividends:	Yes
Application of unit trading system:	Yes (100 shares per unit)

1. Non-consolidated operating results (from April 1, 2005 to March 31, 2006)

(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)	%
March 31, 2006	55,984	5.8	5,104	(4.4)	5,517	(3.5)
March 31, 2005	52,893	3.2	5,342	(9.4)	5,719	(2.2)

	Net income		Net income per share	Net income per share, fully diluted	Return on shareholders' equity	Ratio of ordinary profit to total assets	Ratio of ordinary profit to net sales
	(Millions of yen)	%	(Yen)	(Yen)	%	%	%
March 31, 2006	3,351	(8.4)	106.79	-	8.4	9.5	9.9
March 31, 2005	3,660	(0.4)	116.66	116.63	9.8	10.7	10.8

(Notes)

1. Average number of outstanding shares during the term (non-consolidated):
   March 2006 term: 31,387,823 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

	Annual dividends per share			Dividend payment	Dividend payout ratio	The ratio of dividend to shareholders' equity
		Interim term	Term end			
	(Yen)	(Yen)	(Yen)	(Millions of yen)	%	%
March 31, 2006	31.00	15.00	16.00	973	29.0	2.4
March 31, 2005	30.00	14.00	16.00	941	25.7	2.4

(Note)

(3) Non-consolidated financial position

	Total assets	Shareholders' equity	Equity ratio	Shareholders' equity per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
March 31, 2006	61,412	41,302	67.3	1,314.78
March 31, 2005	54,666	38,822	71.0	1,237.13

(Notes)

1. Number of outstanding shares at end of term (non-consolidated):
   March 2006 term: 31,413,816 shares   March 2005 term: 31,381,470 shares
2. Number of treasury stock at end of term:
   March 2006 term: 587,353 shares   March 2005 term: 619,699 shares

2. Non-consolidated forecasts for March 2007 term (from April 1, 2006 to March 31, 2007)

	Net sales	Ordinary profit	Net income	Annual dividends per share		
				Interim period	Term end	
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Yen)	(Yen)	(Yen)
Interim term	27,700	2,500	1,500	15.00	-	-
Annual	55,500	5,150	3,100	-	16.00	31.00

(N.b.) Estimated earnings per share (annual): 98.68 yen

(Note)
The Company carried out a corporate separation on April 1, 2006, spinning off its maintenance services division and establishing Sato System Support Co., Ltd. The forecast for Sato System Support Co., Ltd. is not included in the above figures.

The forecasts stated above are based on our current expectations and assumptions prepared using information available at present and subject to various uncertainties. Actual results may differ due to a variety of causes.

Non-consolidated balance sheet

Years ended March 31; Millions of yen	2005	%	2006	%	Year-on-year change
Current assets					
Cash	7,831		6,714		(1,116)
Notes receivable	3,676		3,754		77
Accounts receivable	8,688		9,818		1,129
Marketable securities	50		50		0
Merchandise	247		349		101
Finished goods	3,044		2,914		(130)
Semifinished goods	188		216		28
Raw materials	509		360		(149)
Work in process	50		67		16
Supplies	0		0		0
Prepaid expenses	181		161		(19)
Short-term loans to affiliated companies	26		1,292		1,265
Deferred credit	648		589		(58)
Deferred taxes	263		189		(73)
Others	658		400		(258)
Allowance for doubtful accounts	(17)		(8)		9
Total current assets	26,047	47.6	26,869	43.8	822
Fixed assets					
Tangible fixed assets					
Buildings	7,160		7,395		
Accumulated depreciation	3,331		3,537		
	3,829		3,857		28
Structures	305		307		
Accumulated depreciation	232		242		
	73		64		(8)
Machinery and equipment	5,408		5,644		
Accumulated depreciation	3,779		4,092		
	1,628		1,552		(76)
Vehicles and delivery equipment	32		33		
Accumulated depreciation	29		30		
	2		3		0
Tools, furniture and fixtures	2,262		2,280		
Accumulated depreciation	1,752		1,828		
	509		451		(57)
Land	5,612		5,616		3
Construction in progress	149		255		105
	11,805	21.6	11,801	19.2	(3)

Years ended March 31; Millions of yen	2005	%	2006	%	Year-on-year change
Intangible fixed assets					
Goodwill	-		34		34
Software	1,410		1,372		(38)
Construction in progress	54		1		(53)
Others	53		53		(0)
	1,518	2.7	1,461	2.3	(56)
Investments and other assets					
Investment securities	156		232		76
Capital stock of affiliated companies	11,809		18,288		6,478
Investments in affiliated companies	696		696		-
Investments other than securities	162		162		-
Long-term loans to employees	24		8		(16)
Long-term loans to affiliated companies	1,446		768		(678)
Reorganization, bankruptcy and other claims	104		67		(37)
Long-term prepaid expenses	41		53		11
Deferred taxes	265		316		51
Guarantee deposits	597		649		52
Others	90		98		7
Allowance for doubtful accounts	(101)		(63)		38
	15,295	28.1	21,279	34.7	5,984
Total fixed assets	28,619	52.4	34,542	56.2	5,923
Total assets	**54,666**	**100.0**	**61,412**	**100.0**	**6,746**

Years ended March 31; Millions of yen	2005	%	2006	%	Year-on-year change
Current liabilities					
Notes payable	2,354		1,369		(984)
Accounts payable	2,385		2,643		258
Short-term borrowings	-		3,000		3,000
Accounts payable - others	7,478		8,316		838
Accrued expenses	844		1,016		172
Income taxes payable	1,043		1,225		181
Consumption taxes payable	51		254		202
Advances from customers	907		1,041		133
Deposits received	59		74		15
Allowance for directors' bonuses	30		54		24
Notes payable - plant and equipment	23		320		296
Others	4		-		(4)
	15,182	27.8	19,316	31.4	4,134
Long-term liabilities					
Deposits received	195		167		(27)
Retirement benefits	197		380		182
Reserve for directors' retirement allowances	267		245		(21)
	661	1.2	793	1.3	132
	15,843	29.0	20,110	32.7	4,266
Shareholders' equity					
Common stock	6,331	11.6	6,331	10.3	-
Capital reserves					
Additional paid-in capital	5,789		5,789		-
Capital reserves - other					
Gain on sale of treasury stock	1		9		7
	5,791	10.6	5,798	9.5	7
Retained earnings					
Legal reserves	474		474		-
Voluntary reserves - total					
Deferred tax reserve	537		524		(13)
Special reserves	21,700		24,400		2,700
Unappropriated retained earnings	5,508		5,201		(307)
	28,221	51.6	30,600	49.9	2,379
Unrealized gains or losses on other securities	13	0.0	26	0.0	13
Treasury stock	(1,534)	(2.8)	(1,454)	(2.4)	79
Total shareholders' equity	38,822	71.0	41,302	67.3	2,479
Total liabilities and shareholders' equity	**54,666**	**100.0**	**61,412**	**100.0**	**6,746**

Non-consolidated statements of income

Years ended March 31; Millions of yen	2005	%	2006	%	Year-on-year change
Net sales					
Net sales - finished goods	46,869		49,151		
Net sales - purchased goods	6,023		6,833		
	52,893	100.0	55,984	100.0	3,091
Cost of sales					
Cost of sales - finished goods					
Finished goods inventory, beginning of year	2,299		3,044		
Production costs for the year	20,633		21,086		
Purchase of finished goods for the year	5,012		5,539		
	27,945		29,670		
Transfers to other accounts	278		285		
Finished goods inventory, end of year	3,044		2,914		
	24,622		26,471		
Cost of sales - purchased goods					
Purchased goods inventory, beginning of year	209		247		
Purchase of goods for the year	4,900		5,506		
	5,109		5,753		
Purchased goods inventory, end of year	247		349		
	4,862		5,404		
	29,484	55.7	31,875	56.9	2,390
Gross profit on sales	23,408	44.3	24,109	43.1	701
Selling, general and administrative expenses					
Sales commissions and promotion expenses	290		317		
Packing and shipping expenses	928		957		
Advertising expenses	408		367		
Directors' salaries	325		352		
Employees' salaries	8,827		9,436		
Pension benefit expenses	640		762		
Provision of allowance for directors' bonuses	30		54		
Employee benefit expenses	1,505		1,524		
Travel and transportation expenses	697		689		
Communication expenses	494		414		
Depreciation expenses	642		805		
Rental expenses	493		514		
Others	2,783		2,808		
	18,066	34.2	19,004	34.0	938
Operating income	5,342	10.1	5,104	9.1	(237)

Years ended March 31; Millions of yen	2005	%	2006	%	Year-on-year change
Non operating income					
Interest income	25		33		
Interest income from securities	0		0		
Dividend income	61		55		
Technical support income	21		-		
Gain on cancellation of endowment insurance	209		-		
Exchange rate gains	39		255		
Rental income	50		38		
Others	45		111		
	453	0.8	493	0.9	40
Non operating expenses					
Interest expenses	0		3		
Loss on disposal of inventories	17		29		
Losses related to claims	17		4		
Sales discounts	17		18		
Others	23		26		
	76	0.1	81	0.1	5
Ordinary profit	5,719	10.8	5,517	9.9	(202)
Extraordinary gains					
Gain on sale of investment securities	192		1		
	192	0.4	1	0.0	(191)
Extraordinary losses					
Loss on sales of fixed assets	2		-		
Loss on disposal of fixed assets	13		12		
Loss on sale of investments	3		-		
Earthquake-related losses	74		-		
Impairment losses	3		-		
	96	0.2	12	0.0	(84)
Net income before taxes	5,814	11.0	5,506	9.8	(308)
Corporate, inhabitant and enterprises taxes	2,120		2,140		
Deferred taxes	33		13		
	2,154	4.1	2,154	3.8	(0)
Net income	3,660	6.9	3,351	6.0	(308)
Retained earnings brought forward from previous year	2,253		2,306		52
Reversal of provision for tax effects	33		13		(20)
Interim dividends	439		470		31
Unappropriated retained earnings	5,508		5,201		(307)