

First Quarter Kessan Report for the March 2007 Term (Consolidated)

August 7, 2006

SATO CORPORATION

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

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

2. Financial status and operating results for the first quarter of the year to March 31, 2007 (April 1, 2006 to June 30, 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)	%
June 30, 2006	19,989	22.7	1,217	11.3	1,221	10.4
June 30, 2005	16,293	5.5	1,093	(27.5)	1,106	(30.0)
March 31, 2006	68,964		5,222		5,400	

	Net income		Net income per share	Net income per share, fully diluted
	(Millions of yen)	%	(Yen)	(Yen)
June 30, 2006	429	(25.3)	13.67	—
June 30, 2005	575	(40.7)	18.33	—
March 31, 2006	2,646		84.32	—

(Notes)

- The percentages shown alongside net sales, operating income, etc. indicate changes from the year-earlier quarter.
- No figures for net income per share, fully diluted, are shown as there were no potentially dilutive securities.

Summary of Results

Based on its DCS (data collection system) & Labeling concept, the Sato group is dedicated to contributing to society through the realization of accuracy, labor savings and resource conservation.

By promoting its DCS & Labeling proprietary business model throughout the world, the group aims to achieve sales of ¥150,000 million by fiscal 2015. In the first stage of this project, covering the fiscal years 2001–2005, Sato invested in installing the infrastructure necessary to expand the business. It has designated the year to March 2007 as the starting point for implementing business expansion as the second stage.

In addition to brisk domestic demand, the group benefited overseas from the contribution of the METO barcode business acquired from Checkpoint Systems Inc. in the fourth quarter of previous fiscal year, lifting sales substantially year-on-year to ¥19,989 million (up 22.7%), a record for a single quarter.

Domestically, sales of markdown control systems for major retailers and products used in the medical field remained strong, while negotiations on the introduction of traceability systems used in home electronics, electronic-components manufacturing and food-and-beverage processing increased, reflecting the recovery in the economy. As a result, sales rose to ¥14,061 million (up 7.4%). Overseas, apart from continued strong sales in North America and Asia, the METO barcode business added another ¥2,424 million in sales, boosting sales sharply to ¥5,927 million (up 85.2%).

In terms of profit, while the gross margin on mechatronic products was affected by certain major projects, efforts to reduce the cost of goods at the Malaysian plant and to boost production volume halted the downward trend in gross margin. Initiatives to lower the cost of goods on labels also had a positive impact on profit, resulting in gross margin of 43.9% on domestic sales (up 1.0%), showing a clearly improving trend.

Overseas, the earnings capacity of the North American business improved further, enabling it to make a positive contribution to profits. In Europe, the recently acquired METO barcode business has operations in a number of countries, requiring time and funding to reorganize its sales and administration. As a result, it incurred a larger loss than expected, including extraordinary losses, but the restructuring is now almost complete and the unit is set to improve its earnings capacity. In the Asian region, the Thai and Chinese subsidiaries continue to record strong sales, but the administrative company in Singapore incurred a slight loss after booking expenses for the European distribution center and higher depreciation expenses for the company's ERP system (used in mission-critical functions).

As a result, first-quarter sales were ¥19,989 million (up 22.7%), with operating income of ¥1,217 million (up 11.3%), ordinary profit of ¥1,221 million (up 10.4%) and net income of ¥429 million (down 25.3%). The Company will make efforts to

improve its sales and operational efficiency and, at the same time, increase earnings by realizing as quickly as possible synergies with newly acquired businesses.

(2) Consolidated financial position

	Total assets (Millions of yen)	Net assets (Millions of yen)	Equity ratio %	Net assets per share (Yen)
June 30, 2006	61,275	35,687	58.2	1,135.94
June 30, 2005	51,531	34,178	66.3	1,089.14
March 31, 2006	61,624	36,119	58.6	1,149.80

Consolidated statements of cash flows

	Net cash provided by (used in) operating activities (Millions of yen)	Net cash used in investing activities (Millions of yen)	Net cash used in financing activities (Millions of yen)	Cash and cash equivalents at end of term (Millions of yen)
June 30, 2006	209	(1,605)	(259)	9,103
June 30, 2005	(401)	(246)	(412)	9,187
March 31, 2006	4,801	(6,575)	2,069	10,751

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

Total assets decreased by ¥349 million from the end of previous fiscal year. Net assets decreased by ¥432 million, bringing the equity ratio to 58.2%.

As of the first quarter ended June 30, 2006, consolidated cash and cash equivalents (hereinafter, “cash”) was ¥9,103 million, decreased by ¥84 million relative to the end of previous first quarter.

A summary of the major components of cash flow in the first quarter ended June 30, 2006 is as follows.

Net cash provided by operating activities:

Net cash provided by operating activities amounted to ¥209 million.

This was mainly due to the recognition of ¥1,003 million in income before adjustments for income taxes, depreciation expenses of ¥506 million, a ¥35 million decrease in notes and accounts receivable and an increase of ¥289 million in notes and accounts payable. These proceeds were partially offset by a ¥74 million increase in inventories, a ¥90 million decrease in notes and accounts payable, a ¥113 million increase in prepaid expenses, along with payment of ¥1,251 million for income taxes paid.

Net cash used in investing activities:

Net cash used in investing activities amounted to ¥1,605 million.

This was mainly the result of acquisition of tangible fixed assets of ¥960 million and intangible fixed assets of ¥93 million.

Net cash used in financing activities:

Net cash used in financing activities amounted to ¥259 million, principally for the payment of cash dividends which totaled ¥466 million.

[Reference data]

Non-consolidated quarterly results (April 1, 2006 to June 30, 2006)

	Net sales		Operating income		Ordinary profit		Net income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
June 30, 2006	14,030	2.1	1,279	6.2	1,264	(0.3)	769	1.4
June 30, 2005	13,742	3.0	1,203	(23.1)	1,269	(22.0)	759	(25.1)
March 31, 2006	55,984		5,104		5,517	%	3,351	

(Notes)

In the previous fiscal year, Sato established three fully owned subsidiaries in order to improve efficiency at the divisional level, and on April 1, 2006, established SATO SYSTEM SUPPORT CO, LTD. using the process of separation by the formation of new company and simplified corporate-separation rules.

Domestic consolidated results and year-on-year comparisons, including the above four subsidiaries, were as follows.

Net sales		Operating income		Ordinary profit		Net income	
(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
14,603	6.3	1,348	12.0	1,332	5.0	770	1.5

	Total assets	Net assets
	(Millions of yen)	(Millions of yen)
June 30, 2006	61,493	41,570
June 30, 2005	54,923	39,083
March 31, 2006	61,412	41,302

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

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

(N.b.) Estimated earnings per share (annual): 109.82 yen

[Reference data]**Non-consolidated forecasts for March 2007 term (April 1, 2006 to March 31, 2007)**

	Net sales	Ordinary profit	Net income
	(Millions of yen)	(Millions of yen)	(Millions of yen)
Interim period	27,700	2,500	1,500
Annual	55,500	5,150	3,100

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

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

Qualitative information regarding forecasts

In Japan, economic activity picked up considerable momentum in the second half of 2005, with the recovery extending across a wide range of industries, including manufacturing, sales, and distribution. Expanding personal consumption has increased the need in work places of all industries for the enhanced efficiencies provided by bar codes, 2-D codes, RFID, and other automatic identification technologies. These needs are increasing not only in highly profitable sectors such as automobiles, electrical appliances and electronic components, and steel, but also in such industries as healthcare, product distribution, food processing, and agricultural and marine product sales (rice, fish, vegetables, meat, etc.).

In North America, negotiations with potentially large accounts are increasing as the Company adds new distributors. Sales in China are also strong. And with label manufacturing becoming fully viable in Thailand and Malaysia, the Company is increasing its ability to supply manufacturers in that region. In Europe, the Company is making progress toward reducing its deficits. The Company will engage in a full-scale effort to increase its profits, taking steps to further reduce manufacturing costs and make more efficient use of operating funds.

Accordingly, the Company reaffirms the forecasts for full-year results which were announced at the beginning of the term.

Consolidated balance sheet (Summary)

Millions of yen	June 30, 2006	June 30, 2005	Increase/decrease %	March 31, 2006	
Current assets					
Cash	9,052	9,137	(84)	10,700	
Notes and accounts receivable - trade	18,156	14,749	3,406	18,169	
Marketable securities	50	50	0	50	
Inventories	10,195	7,851	2,343	10,144	
Accounts receivable - other	589	470	118	613	
Others	2,202	809	1,393	1,280	
Allowance for doubtful accounts	(91)	(78)	(13)	(88)	
Total current assets	40,155	32,990	7,165	21.7	40,870
Fixed assets					
Tangible fixed assets					
Buildings and structures	5,231	4,770	460	5,258	
Machinery, equipment and delivery equipment	2,713	2,215	498	2,662	
Tools, furniture and fixtures	1,218	1,083	134	1,302	
Land	5,657	5,641	16	5,658	
Construction in progress	883	784	99	298	
	15,704	14,495	1,209	8.3	15,181
Intangible fixed assets	3,445	2,177	1,268	58.2	3,589
Investments and other assets					
Investment securities	245	173	72	250	
Long-term loans	38	55	(16)	38	
Guarantee deposits	958	669	288	971	
Others	789	1,065	(276)	785	
Allowance for doubtful accounts	(63)	(96)	32	(62)	
	1,968	1,867	100	5.4	1,983
Total fixed assets	21,119	18,541	2,578	13.9	20,753
Total assets	61,275	51,531	9,743	18.9	61,624

Millions of yen	June 30, 2006	June 30, 2005	Increase/decrease %	March 31, 2006	
Current liabilities					
Notes and accounts payable	5,443	5,199	243	5,531	
Short-term borrowings	3,467	375	3,091	3,465	
Accounts payable - other	9,251	7,500	1,750	8,994	
Income taxes payable	686	467	219	1,354	
Reserve for bonuses	244	91	152	189	
Others	4,140	2,973	1,167	3,907	
	23,232	16,609	6,623	39.9	23,442
Long-term liabilities					
Reserve for employees' retirement benefits	1,651	246	1,405	1,591	
Reserve for directors' retirement allowances	245	245	-	245	
Others	457	252	205	225	
	2,354	744	1,610	216.4	2,062
Total liabilities	25,587	17,353	8,234	47.5	25,504
Minority interest in consolidated subsidiaries					
	-	-	-	-	-
Shareholders' equity					
Common stock	-	6,331	-	-	6,331
Capital reserves	-	5,783	-	-	5,798
Retained earnings	-	24,220	-	-	24,918
Unrealized gains or losses on other securities	-	18	-	-	26
Foreign currency translation adjustment	-	(638)	-	-	499
Treasury stock	-	(1,535)	-	-	(1,454)
Total shareholders' equity	-	34,178	-	-	36,119
Total liabilities and shareholders' equity	-	51,531	-	-	61,624
Net equity					
Shareholders' assets					
Common stock	6,331	-	-	-	-
Capital reserves	5,799	-	-	-	-
Retained earnings	24,779	-	-	-	-
Treasury stock	(1,449)	-	-	-	-
	35,459	-	-	-	-
Valuation/translation gains (losses)					
Unrealized gains or losses on other securities	22	-	-	-	-
Foreign currency translation adjustment	204	-	-	-	-
	226	-	-	-	-
Minority interest in consolidated subsidiaries					
	0	-	-	-	-
Total net assets	35,687	-	-	-	-
Total liabilities and net assets	61,275	-	-	-	-

Consolidated statements of income (Summary)

Millions of yen	3 months ended June 30, 2006	3 months ended June 30, 2005	Increase/decrease		12 months ended March 31, 2006
			%		
Net sales	19,989	16,293	3,695	22.7	68,964
Cost of sales	11,396	8,921	2,475	27.7	38,371
Gross profit on sales	8,592	7,372	1,220	16.6	30,593
Selling, general and administrative expenses	7,375	6,278	1,096	17.5	25,371
Operating income	1,217	1,093	123	11.3	5,222
Non operating income					
Interest income	8	3	4		36
Dividend income	1	1	(1)		1
Foreign exchange gains	16	29	(12)		276
Others	38	31	6		247
	64	65	(1)	(1.8)	561
Non operating expenses					
Interest expenses	29	20	9		102
Others	30	32	(1)		281
	60	52	7	13.8	383
Ordinary profit	1,221	1,106	114	10.4	5,400
Extraordinary gains	17	-	17	-	45
Extraordinary losses	234	30	204	659.1	546
Income before adjustments for income taxes	1,003	1,075	(71)	(6.7)	4,898
Taxes	573	500	72	14.6	2,251
Minority interest in income of consolidated subsidiaries	0	-	0	-	-
Net income	429	575	(145)	(25.3)	2,646

Consolidated statements of cash flows (Summary)

Millions of yen	3 months ended June 30, 2006	3 months ended June 30, 2005	12 months ended March 31, 2006
Net cash provided by (used in) operating activities			
Income before adjustments for income taxes	1,003	1,075	4,898
Depreciation expenses	506	450	1,968
Amortization of consolidation adjustment account	61	-	61
Gain on sales of investment securities	-	-	(1)
Gain on sales of marketable securities	0	0	(2)
Loss on valuation of marketable securities	0	-	2
Loss on disposal of fixed assets	0	4	15
Gain (loss) on sales of tangible fixed assets	(7)	0	(2)
Increase (decrease) in allowance for doubtful accounts	3	6	(21)
Increase (decrease) in reserve for bonuses	55	(1)	143
Increase (decrease) in reserve for directors' retirement allowances	-	(21)	(21)
Reserve for retirement benefits	30	48	37
Interest and dividends received	(9)	(4)	(38)
Interest expenses	29	20	102
Foreign exchange loss and gain	(338)	33	550
Decrease (increase) in notes and accounts receivable	35	(425)	(1,445)
Decrease (increase) in inventories	(74)	(215)	(753)
Decrease (increase) in prepaid expenses	(113)	(41)	30
Decrease (increase) in accounts receivable - others	23	74	(64)
Increase (decrease) in notes and accounts payable	(90)	(130)	(129)
Increase (decrease) in accounts payable	289	(386)	694
Others	77	262	763
	1,482	749	6,789
Interest and dividends received	9	4	38
Interest paid	(29)	(20)	(102)
Income taxes paid	(1,251)	(1,134)	(1,922)
	209	(401)	4,801
Net cash used in investing activities			
Proceeds from sales of marketable securities	0	175	13
Payments for investment securities	(2)	(100)	(83)
Proceeds from sales of investment securities	-	-	1
Purchase of tangible fixed assets	(1,106)	(280)	(1,338)
Proceeds from sales of tangible fixed assets	146	5	61
Purchase of intangible fixed assets	(93)	(52)	(644)
Proceeds from capital issuance to minority shareholders	-	-	-
Purchase of securities of subsidiaries accompanied with reclassification of consolidation	-	(26)	(4,268)
Others	(549)	33	(318)
	(1,605)	(246)	(6,575)

Millions of yen	3 months ended June 30, 2006	3 months ended June 30, 2005	12 months ended March 31, 2006
Net cash used in financing activities			
Increase (decrease) in short-term borrowings	(16)	36	2,925
Increase (decrease) in long-term debt	218	25	28
Proceeds from sales of treasury stock	5	-	93
Purchase of treasury stock	0	(9)	(6)
Cash dividend paid	(466)	(466)	(971)
	(259)	(412)	2,069
Effect of exchange rate changes on cash and cash equivalents	7	13	222
Net increase (decrease) in cash and cash equivalents	(1,648)	(1,046)	516
Cash and cash equivalents at beginning of year	10,751	10,234	10,234
Cash and cash equivalents at end of year	9,103	9,187	10,751

4. Segment information

Business segment information

Millions of yen	Mechatronic product business	Supply product business	Total	Eliminations	Consolidated
3 months ended June 30, 2006					
Sales					
External customer sales	8,301	11,687	19,989	(-)	19,989
Intersegment transactions and eliminations	-	-	-	(-)	-
	8,301	11,687	19,989	(-)	19,989
Operating expenses	7,767	11,004	18,772	(-)	18,772
Operating income	534	682	1,217	(-)	1,217
3 months ended June 30, 2005					
Sales					
External customer sales	7,175	9,118	16,293	(-)	16,293
Intersegment transactions and eliminations	-	-	-	(-)	-
	7,175	9,118	16,293	(-)	16,293
Operating expenses	6,600	8,599	15,199	(-)	15,199
Operating income	575	518	1,093	(-)	1,093
12 months ended March 31, 2006					
Sales					
External customer sales	30,336	38,628	68,964	(-)	68,964
Intersegment transactions and eliminations	-	-	-	(-)	-
	30,336	38,628	68,964	(-)	68,964
Operating expenses	27,798	35,944	63,742	(-)	63,742
Operating income	2,538	2,684	5,222	(-)	5,222

(Note)

The main products of each business segment are as follows:

The mechatronic product business: electronic printers, hand labelers

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

Geographical segment information

Millions of yen	Japan	North America	Europe	Asia/ Oceania	Total	Eliminations	Consolidated
3 months ended June 30, 2006							
Sales							
External customers	14,061	2,280	2,452	1,194	19,989	-	19,989
Intersegment sales	541	4	405	2,931	3,882	(3,882)	-
	14,603	2,284	2,857	4,126	23,872	(3,882)	19,989
Operating expenses	13,255	2,149	3,036	4,145	22,586	(3,814)	18,772
Operating income (loss)	1,348	135	(178)	(19)	1,285	(68)	1,217
Millions of yen	Japan	North America	Europe	Asia	Total	Eliminations	Consolidated
3 months ended June 30, 2005							
Sales							
External customers	13,092	870	1,718	612	16,293	-	16,293
Intersegment sales	650	4	281	3,295	4,231	(4,231)	-
	13,742	874	1,999	3,908	20,525	(4,231)	16,293
Operating expenses	12,538	851	2,217	3,682	19,290	(4,090)	15,199
Operating income (loss)	1,203	22	(217)	225	1,234	(140)	1,093
Millions of yen	Japan	North America	Europe	Asia/ Oceania	Total	Eliminations	Consolidated
12 months ended March 31, 2006							
Sales							
External customers	53,272	5,281	7,172	3,238	68,964	-	68,964
Intersegment sales	2,712	21	1,360	13,034	17,127	(17,127)	-
	55,984	5,302	8,532	16,272	86,092	(17,127)	68,964
Operating expenses	50,880	4,985	8,993	15,664	80,524	(16,781)	63,742
Operating income (loss)	5,104	316	(461)	608	5,568	(345)	5,222

(Notes)

- Regions are categorized on the basis of geographical proximity.
- Outside Japan, the countries belonging to the various regions are as follows:
 - North America: U.S.A.
 - Europe: Germany, UK, Poland, Belgium, France, Spain
 - Asia: Malaysia, Singapore, Thailand, China, Vietnam
 - Oceania: Australia, New Zealand

Overseas sales

Millions of yen	3 months ended June 30, 2006		3 months ended June 30, 2005		12 months ended March 31, 2006	
	Overseas sales	As % of net sales	Overseas sales	As % of net sales	Overseas sales	As % of net sales
North America	2,280	11.4	870	5.3	5,281	7.7
Europe	2,452	12.3	1,718	10.5	7,172	10.4
Asia and others	1,194	6.0	612	3.8	3,238	4.7
	5,927	29.7	3,201	19.6	15,692	22.8
Consolidated sales	19,989		16,293		68,964	

(Notes)

- Regions are categorized on the basis of geographical proximity.
- Outside Japan, the countries belonging to the various regions are as follows:
 - North America: U.S.A., Canada
 - Europe: Germany, UK, France, Italy, etc.
 - Asia: Malaysia, Singapore, Thailand, China, Australia, etc.
- Overseas sales are composed of sales made in countries and regions other than Japan by SATO CORPORATION and its consolidated subsidiaries.