

First Quarter Kessan Report for the March 2008 Term (Consolidated)

August 9, 2007

SATO CORPORATION

Company code number: 6287
 (URL <http://www.sato.co.jp/>)

Shares traded: TSE1

Executive position of legal representative: Koichi Nishida, President and CEO,
 Representative Corporate Executive Officer

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1. Consolidated operating results for the three-month period of the year to March 31, 2008 (April 1, 2007 to June 30, 2007)

(1) Consolidated financial results

(In millions of yen, with fractional amounts discarded)
 (Percent figures show projected year-on-year change for previous year)

	Net sales		Operating income		Ordinary profit	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
June 30, 2007	21,753	8.8	1,346	10.6	1,522	24.7
June 30, 2006	19,989	22.7	1,217	11.3	1,221	10.4
March 31, 2007	82,491		5,695		5,484	

	Net income		Net income per share	Net income per share, fully diluted
	(Millions of yen)	%	(Yen)	(Yen)
June 30, 2007	763	77.8	24.54	-
June 30, 2006	429	(25.3)	13.67	-
March 31, 2007	2,389		76.30	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
June 30, 2007	69,779	38,546	55.2	1,238.17
June 30, 2006	61,275	35,687	58.2	1,135.94
March 31, 2007	66,923	37,508	56.0	1,205.33

(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)
June 30, 2007	169	(475)	164	10,346
June 30, 2006	209	(1,605)	(259)	9,103
March 31, 2007	2,912	(4,066)	496	10,344

2. Consolidated forecasts for March 2008 term (April 1, 2007 to March 31, 2008)

[Reference data]

(Percent figures show projected year-on-year change for previous year)

	Net sales		Operating income		Ordinary profit		Net income		Net income per share (Yen)
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	
Interim term	43,500	7.4	2,600	19.4	2,600	18.7	1,100	107.3	35.35
Annual	88,000	6.7	6,300	10.6	6,100	11.2	3,200	33.9	102.85

3. Others

- (1) Changes in major subsidiary status during period under review (affecting specific subsidiaries due to changes in scope of consolidation): No
- (2) Use of simplified accounting methods: Yes
- (3) Changes in accounting methods: No

(Note) For details, please see item 4 ("Others") on page 4, where qualitative information is provided on the Company's financial statements.

* Disclaimer regarding appropriate use of forecasts and related points of note

The Company's forecast for the six-month period ending September 30, 2007 has been revised. For details, please refer to the section entitled Qualitative information on consolidated forecasts on page 4.

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 on Financial Statements, etc.

1. Qualitative information on consolidated results (percentage changes, year-on-year)

The SATO Group began operating under its revised management structure on June 22, 2007, with the new Board of Directors meeting for the first time following the General Meeting of Shareholders.

The new Board agreed that it would continue to adhere to the basic management policy of contributing to society by applying the Company's original and innovative "DCS (Data Collection Systems) & Labeling" business model to help customers achieve "accuracy, labor savings, and resource conservation." Based on this policy, management would then execute the measures required to make steady and rapid progress toward generating group-wide sales of ¥150 billion by the year to March 2016.

Consolidated sales in first-quarter increased by 8.8% to ¥21,753 million, the highest quarterly amount on record. Strong demand in Japan and steady growth in overseas markets contributed to this performance. Domestically, the Company recorded sales ¥14,784 million, an increase of 5.1%, as contract negotiations with customers in food processing, retailing, and other industries increased. Overseas, the Company focused on promoting more effective information sharing among operating units in different markets. The result was a sharp 17.6% increase in sales to ¥6,969 million, with sales in all geographical segments growing: in North America, by 8.6% to ¥2,475 million; in Europe, by 13.2% to ¥2,775 million; and in Asia and Oceania, by 43.8% to ¥1,718 million.

Profitability benefited from the Company's efforts to improve its gross margin. Higher sales, cost reductions, and increased production volumes all contributed to the improvement in the gross margin, as did a weaker yen. Consequently, operating income increased by 10.6% to ¥1,346 million, ordinary profit rose by 24.7% to ¥1,522 million, and net income grew by 77.8% to ¥763 million.

As of the end of first-quarter, the Company was running slightly ahead of the pace required to achieve its projected sales and profit for the fiscal year to March 2008.

2. Qualitative information on consolidated financial condition

Total assets as of the end of first-quarter were ¥69,779 million, an increase of ¥2,855 million compared to the end of the previous fiscal year. Notes and accounts receivable rose by ¥1,042 million and inventories by ¥1,077 million. Liabilities stood at ¥31,232 million, an increase of ¥1,816 million, primarily because of a ¥667 million increase in notes and accounts payable and a ¥447 million increase in short-term borrowings.

Net assets stood at ¥38,546 million, which was ¥1,038 million higher than at the end of the last fiscal year. This was primarily due to an increase of ¥411 million in retained earnings, as a result of the recognition of first-quarter net income, etc.

3. Qualitative information on consolidated forecasts

Based on the higher-than-forecast levels of sales and profits attained in first-quarter, and also on the continued strength of recent business in various markets, the Company has partially revised its original forecast for the six-month period ending September 30, 2007.

Its forecast for the interim period now stands as follows: sales, ¥43,500 million (cf. ¥43,000 million); operating income, ¥2,600 million (cf. ¥2,500 million); ordinary profit, ¥2,600 million (cf. ¥2,400 million); and interim net income, ¥1,100 million (cf. ¥1,100 million).

For the full year, the Company's forecast remains unchanged.

In domestic and overseas markets, the Company will continue to promote the sharing of information on sales and manufacturing among all of its operating units, increasing their access to such information in both quantitative and qualitative terms. Through such information sharing, it will aim to increase its ability to compete and to make inroads into these markets.

4. Others

- (1) Changes in major subsidiary status during period under review (affecting specific subsidiaries due to changes in scope of consolidation):

Not applicable

- (2) Use of simplified accounting methods:

The Company calculates corporate and other taxes by estimating annual rates of taxation based on effective statutory tax rates.

- (3) Changes in accounting methods:

Not applicable

5. Financial statements

Consolidated balance sheets (Summary)

Millions of yen	March 31, 2007	June 30, 2007	Increase/decrease		June 30, 2006
			%		
Current assets					
Cash	10,344	10,042	(302)		9,052
Notes and accounts receivable	20,639	21,682	1,042		18,156
Marketable securities	-	304	304		50
Inventories	11,476	12,554	1,077		10,195
Deferred credit	680	691	10		589
Others	1,443	2,149	706		2,202
Allowance for doubtful accounts	(180)	(216)	(36)		(91)
Total current assets	44,404	47,208	2,803	6.3	40,155
Fixed assets					
Tangible fixed assets					
Buildings and structures	5,876	5,898	22		5,231
Machinery, equipment and delivery equipment	3,469	3,525	55		2,713
Tools, furniture and fixtures	1,480	1,519	38		1,218
Land	5,651	5,653	1		5,657
Construction in progress	343	365	22		883
	16,821	16,962	140	0.8	15,704
Intangible fixed assets	3,112	2,991	(121)	(3.9)	3,445
Investments and other assets					
Investment securities	219	190	(29)		245
Long-term loans	24	25	1		38
Guarantee deposits	1,083	1,115	32		958
Others	1,320	1,335	14		789
Allowance for doubtful accounts	(63)	(48)	14		(63)
	2,584	2,618	33	1.3	1,968
Total fixed assets	22,519	22,571	51	0.2	21,119
Total assets	66,923	69,779	2,855	4.3	61,275

Millions of yen	March 31, 2007	June 30, 2007	Increase/decrease		June 30, 2006
			%		
Current liabilities					
Notes and accounts payable	5,776	6,443	667		5,443
Short-term borrowings	5,555	6,002	447		3,467
Accounts payable - other	10,672	10,562	(109)		9,251
Income taxes payable	1,384	751	(632)		686
Reserve for bonuses	237	317	80		244
Others	3,423	4,479	1,055		4,140
	27,049	28,557	1,507	5.6	23,232
Long-term liabilities					
Long-term debt	18	266	247		259
Reserve for employees' retirement benefits	1,829	1,846	17		1,651
Long-term payables related to directors' and corporate auditors' retirements	245	245	-		245
Others	272	315	43		198
	2,366	2,675	309	13.1	2,354
Total liabilities	29,415	31,232	1,816	6.2	25,587
Net assets					
Shareholders' equity					
Common stock	6,331	6,331	-		6,331
Capital surplus	5,799	5,799	-		5,799
Retained earnings	26,333	26,744	411		24,779
Treasury stock	(2,059)	(2,060)	(0)		(1,449)
	36,404	36,814	410	1.1	35,459
Valuation/translation gains (losses)					
Unrealized gains or losses on other securities	7	5	(2)		22
Foreign currency translation adjustments	1,091	1,704	613		204
	1,098	1,710	611	55.6	226
New share subscription rights	-	13	13	-	-
Minority interest in consolidated subsidiaries	4	8	3	74.4	0
Net assets	37,508	38,546	1,038	2.8	35,687
Total liabilities and net assets	66,923	69,779	2,855	4.3	61,275

Consolidated statements of income (Summary)

Millions of yen	Three months ended June 30, 2006	Three months ended June 30, 2007	Increase/decrease %		Year ended March 31, 2007
Net sales	19,989	21,753	1,764	8.8	82,491
Cost of sales	11,396	12,162	765	6.7	46,600
Gross profit on sales	8,592	9,591	999	11.6	35,890
Selling, general and administrative expenses	7,375	8,245	870	11.8	30,195
Operating income	1,217	1,346	129	10.6	5,695
Non operating income					
Interest income	8	15	7	91.9	59
Dividend income	1	1	0	43.7	2
Foreign exchange gain	16	287	271	1,664.8	134
Others	38	38	(0)	(0.9)	255
	64	343	279	435.4	451
Non operating expenses					
Interest expenses	29	42	12	43.1	132
Others	30	124	93	305.4	529
	60	166	106	176.7	662
Ordinary profit	1,221	1,522	301	24.7	5,484
Extraordinary gains	17	3	(14)	(81.8)	108
Extraordinary losses	234	136	(98)	(41.7)	946
Income before adjustments for income taxes	1,003	1,389	385	38.5	4,646
Taxes	573	622	49	8.6	2,253
Minority interest in income of consolidated subsidiaries	0	3	2	273.2	4
Net income	429	763	334	77.8	2,389

Consolidated statements of cash flows (Summary)

Millions of yen	Three months ended June 30, 2006	Three months ended June 30, 2007	Year ended March 31, 2007
Net cash provided by operating activities			
Income before adjustments for income taxes	1,003	1,389	4,646
Depreciation expenses	506	609	2,287
Amortization of goodwill	61	61	197
Loss on disposal of fixed assets	0	11	165
Loss on business restructuring	-	-	341
Expenses related to business acquisitions	-	-	328
Gain on sales of tangible fixed assets	(7)	3	(28)
Increase (decrease) in allowance for doubtful accounts	3	11	82
Increase (decrease) in reserve for bonuses	55	70	32
Increase (decrease) in reserve for employees' retirement benefits	30	53	95
Interest and dividends received	(9)	(17)	(61)
Interest expenses	29	42	132
Foreign exchange loss (gain)	(338)	336	162
Decrease (increase) in notes and accounts receivable	35	(500)	(1,660)
Decrease (increase) in inventories	(74)	(736)	(818)
Decrease (increase) in prepaid expenses	(113)	(460)	(148)
Decrease (increase) in accounts receivable - other	23	(6)	(63)
Increase (decrease) in notes and accounts payable	(90)	343	(399)
Increase (decrease) in accounts payable - other	289	(176)	1,719
Others	76	470	(792)
	1,482	1,504	6,218
Interest and dividends received	9	17	61
Interest paid	(29)	(42)	(132)
Payments related to losses on business restructuring	-	-	(341)
Payments related to business acquisition expenses	-	-	(328)
Income taxes paid	(1,251)	(1,310)	(2,566)
	209	169	2,912
Net cash used in investing activities			
Payments for investments in securities	(2)	-	(41)
Proceeds from sales of investment securities	0	-	62
Purchase of tangible fixed assets	(1,106)	(421)	(3,728)
Proceeds from sales of tangible fixed assets	146	25	413
Purchase of intangible fixed assets	(93)	(88)	(203)
Expenses incurred for business acquisitions	-	-	(620)
Others	(549)	9	50
	(1,605)	(475)	(4,066)

Millions of yen	Three months ended June 30, 2006	Three months ended June 30, 2007	Year ended March 31, 2007
Net cash used in financing activities			
Increase (decrease) in short-term borrowings	(16)	412	2,089
Increase (decrease) in long-term debt	218	241	(16)
Proceeds from sales of treasury stock	5	-	5
Purchase of treasury stock	(0)	(0)	(610)
Cash dividends paid	(466)	(489)	(972)
	(259)	164	496
Effect of exchange rate changes on cash and cash equivalents	7	142	251
Net increase (decrease) in cash and cash equivalents	(1,648)	1	(406)
Cash and cash equivalents at beginning of term	10,751	10,344	10,751
Cash and cash equivalents at end of term	9,103	10,346	10,344

6. Segment information

Business segment information

Millions of yen	Mechatronic product business	Supply product business	Total	Eliminations	Consolidated
Three 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
Three months ended June 30, 2007					
Sales					
External customer sales	8,923	12,830	21,753	(-)	21,753
Intersegment transactions and eliminations	-	-	-	(-)	-
	8,923	12,830	21,753	(-)	21,753
Operating expenses	8,228	12,178	20,407	(-)	20,407
Operating income	694	651	1,346	(-)	1,346
Year ended March 31, 2007					
Sales					
External customer sales	35,197	47,294	82,491	(-)	82,491
Intersegment transactions and eliminations	-	-	-	(-)	-
	35,197	47,294	82,491	(-)	82,491
Operating expenses	32,835	43,960	76,796	(-)	76,796
Operating income	2,361	3,333	5,695	(-)	5,695

(Note)

The main products of each business segment are as follows:

Mechatronic product business: electronic printers, hand labelers

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
Three 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	1,348	135	(178)	(19)	1,285	(68)	1,217
Three months ended June 30, 2007							
Sales							
External customers	14,784	2,475	2,775	1,718	21,753	-	21,753
Intersegment sales	684	26	68	2,198	2,978	(2,978)	-
	15,469	2,502	2,843	3,916	24,731	(2,978)	21,753
Operating expenses	14,218	2,407	2,990	3,876	23,492	(3,085)	20,407
Operating income	1,250	95	(146)	39	1,239	107	1,346
Year ended March 31, 2007							
Sales							
External customers	56,523	9,422	10,809	5,735	82,491	-	82,491
Intersegment sales	2,690	66	24	8,618	11,399	(11,399)	-
	59,213	9,489	10,833	14,354	93,890	(11,399)	82,491
Operating expenses	53,841	8,854	11,007	14,203	87,906	(11,110)	76,796
Operating income	5,372	634	(173)	150	5,984	(289)	5,695

(Notes)

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

Overseas sales

Millions of yen	Three months ended June 30, 2006		Three months ended June 30, 2007		Year ended March 31, 2007	
	Overseas sales	As % of net sales	Overseas sales	As % of net sales	Overseas sales	As % of net sales
North America	2,280	11.4	2,475	11.4	9,422	11.4
Europe	2,452	12.3	2,775	12.8	10,809	13.1
Asia, others	1,194	6.0	1,718	7.9	5,735	7.0
	5,927	29.7	6,969	32.0	25,967	31.5
Consolidated sales	19,989		21,753		82,491	

(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, U.K., France, Italy, etc.
 - Asia, etc.: Malaysia, Singapore, Thailand, China, Australia, etc.
- Overseas sales are composed of sales made in countries and regions other than Japan by the Company and its consolidated subsidiaries.