

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

February 15, 2008

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 nine-month period of the year to March 31, 2008 (April 1, 2007 to December 31, 2007)

(1) Consolidated financial results

(In millions of yen, with fractional amounts discarded)
 (Percentages show changes from the year-earlier period.)

	Net sales		Operating income		Ordinary profit	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
December 31, 2007	66,536	7.4	4,145	0.1	3,960	(8.0)
December 31, 2006	61,979	22.8	4,143	3.1	4,306	3.3
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)	
December 31, 2007	1,800	8.5	58.02		-	
December 31, 2006	1,660	(21.5)	52.90		-	
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)
December 31, 2007	68,112	37,562	55.1	1,225.34
December 31, 2006	66,610	36,765	55.2	1,181.47
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 provided by (used in) financing activities	Cash and cash equivalents at end of term
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
December 31, 2007	1,525	(2,029)	(1,458)	8,452
December 31, 2006	1,189	(3,465)	841	9,605
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]

(Percentages show projected year-on-year changes.)

	Net sales		Operating income		Ordinary profit		Net income		Net income per share
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Yen)
Annual	88,300	7.0	5,700	0.1	5,200	(5.2)	2,400	0.4	77.33

3. Others

(1) Changes in major subsidiary status during period under review (affecting specific subsidiaries due to changes in scope of consolidation): None

(2) Use of simplified accounting methods: Yes

(3) Changes in accounting methods: Yes

(Note) For details, please see item (4 "Others") on pages 4-5, where qualitative information is provided on the Group's financial statements.

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

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 has adopted the basic management policy of contributing to society by applying the Group'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 is engaged in the measures required to make steady and rapid progress toward generating group-wide sales of ¥150 billion by the year to March 2016.

During the third quarter, consolidated sales increased by ¥4,557 million or 7.4% year on year to ¥66,536 million, as the Group exploited increasing demand in various market segments both in Japan and overseas.

Domestically, profits were affected by high raw materials costs for supply products and by increases in depreciation resulting from aggressive capital investments aimed at enhancing manufacturing efficiency. Up-front investments (into R&D, personnel, etc.) related to the development of new electric printers and other new products and higher SG&A expenses (for internal control, etc.) also weighed on profitability. Overseas, profits in the Americas were temporarily weakened due to decrease of orders in December brought on by fears of a recession and due to higher costs for the development of new sales channels. In Europe, reorganization costs for two companies, one in Germany and the other in Spain, continued to increase, severely impacting their operating margin. The Group has dispatched executive officers and staff from SATO CORPORATION and SATO INTERNATIONAL PTE. LTD. to these companies on long-term assignments to work on a turnaround. By collaborating with the two companies to improve both their sales and operations management, the Group is aiming to establish their profitability by the end of the fiscal year. In Asia and Oceania, new spirited negotiations with Japanese-owned companies and production increases at local plants contributed to the Group's overall profitability.

As a result of the foregoing, consolidated operating income increased by 0.1% year on year to ¥4,145 million, while consolidated ordinary profit declined by 8.0% year on year to ¥3,960 million. Consolidated net income for the quarter increased by 8.5% year on year to ¥1,800 million.

2. Qualitative information on consolidated financial condition

Total assets at the end of the third quarter stood at ¥68,112 million, an increase by ¥1,188 million compared to the end of the previous fiscal year, primarily because of a ¥708 million increase in inventories. On the other hand, liabilities stood at ¥30,549 million, an increase of ¥1,133 million, largely because of an increase in accounts payable - other of ¥1,059 million.

Net assets grew by ¥54 million compared to the end of the previous year, to ¥37,562 million. This reflected an increase in retained earnings of ¥900 million from the recognition of the third-quarter net income and a decrease of ¥893 million that accompanied the purchase of treasury stock.

3. Qualitative information on consolidated forecasts

Although consolidated sales continued to increase at a brisk pace in the third quarter, each profit indicator failed to reach its targets as a result of high raw materials costs and up-front investments for the Group's future. Consequently, the Group has revised its original forecasts for the full year.

Its forecast for the full year now stands as follows: sales, ¥88,300 million (cf. previous forecast of ¥88,000 million); operating income, ¥5,700 million (cf. ¥6,300 million); ordinary profit, ¥5,200 million (cf. ¥6,100 million); and net income, ¥2,400 million (cf. ¥3,200 million).

In both domestic and overseas operations, the Group will continue to increase the quality and quantity of information that is shared among its sales and manufacturing operations, and to promote new product development that meets market needs. To deal with the higher costs of supply products resulting from high-price of crude oil, the Group will diversify its methods of procuring paper and renew its label-manufacturing equipments. Simultaneously, the Group will move quickly to revise its product-pricing structure. Through these and other efforts, the Group will endeavor to strengthen its organizational and competitive capabilities.

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

- (3) Changes in accounting methods:

(Depreciation methods for tangible fixed assets)

Effective from the fiscal year ending March 2008, the Company and its domestic subsidiaries have adopted new depreciation methods for tangible fixed assets acquired on or after April 1, 2007, in accordance with revisions of the Corporation Tax Law.

The effect of the adoption of these new methods reduces operating income, ordinary profit, and income before adjustments for income taxes by ¥34 million, respectively.

(Additional information)

Following the revision of the Corporation Tax Law, effective from the fiscal year under review, the Company and its domestic subsidiaries have adopted the following method of depreciation for tangible fixed assets acquired on or before March 31, 2007. For those assets that have been depreciated and reached 5% of their acquisition value using the method of calculating depreciation based on the Corporation Tax Law, the difference between the remaining 5% of the acquisition value and a memorandum price will be written off in equal amounts over the five-year period beginning with the year following the year when the book value is depreciated to 5% of the acquisition value. This amount is included in depreciation.

The effect of the adoption of this new method was to reduce operating income, ordinary profit, and income before adjustments for income taxes by ¥26 million, respectively.

5. Financial statements

Consolidated balance sheets (Summary)

Millions of yen	March 31, 2007	December 31, 2007	Increase/ decrease	%	December 31, 2006
Current assets					
Cash	10,344	8,524	(1,820)		9,605
Notes and accounts receivable	20,639	22,263	1,624		21,124
Marketable securities	-	42	42		-
Inventories	11,476	12,185	708		11,062
Deferred credit	680	962	281		792
Others	1,443	1,664	221		1,765
Allowance for doubtful accounts	(180)	(242)	(62)		(114)
Total current assets	44,404	45,399	994	2.2	44,234
Fixed assets					
Tangible fixed assets					
Buildings and structures	5,876	5,648	(227)		5,710
Machinery, equipment and delivery equipment	3,469	4,010	540		3,293
Tools, furniture and fixtures	1,480	1,454	(26)		1,568
Land	5,651	5,649	(2)		5,651
Construction in progress	343	394	51		393
Total tangible fixed assets	16,821	17,156	334	2.0	16,616
Intangible fixed assets	3,112	2,877	(235)	(7.6)	3,494
Investments and other assets					
Investment securities	219	291	72		288
Long-term loans	24	48	24		23
Guarantee deposits	1,083	858	(224)		1,088
Others	1,320	1,530	209		935
Allowance for doubtful accounts	(63)	(50)	12		(71)
Total investments and other assets	2,584	2,679	94	3.6	2,264
Total fixed assets	22,519	22,713	193	0.9	22,375
Total assets	66,923	68,112	1,188	1.8	66,610

Millions of yen	March 31, 2007	December 31, 2007	Increase/ decrease	%	December 31, 2006
Current liabilities					
Notes and accounts payable	5,776	5,916	139		5,698
Short-term borrowings	5,555	6,019	464		5,657
Accounts payable - other	10,672	11,732	1,059		11,237
Income taxes payable	1,384	559	(825)		932
Reserve for bonuses	237	232	(4)		216
Others	3,423	3,610	186		3,563
Total current liabilities	27,049	28,070	1,021	3.8	27,304
Long-term liabilities					
Long-term debt	18	11	(7)		262
Reserve for employees' retirement benefits	1,829	1,891	61		1,812
Long-term payables related to directors' and corporate auditors' retirements	245	245	-		245
Others	272	330	58		218
Total long-term liabilities	2,366	2,478	112	4.8	2,539
Total liabilities	29,415	30,549	1,133	3.9	29,844
Net assets					
Shareholders' equity					
Common stock	6,331	6,331	-		6,331
Capital surplus	5,799	5,799	-		5,799
Retained earnings	26,333	27,234	900		25,604
Treasury stock	(2,059)	(2,952)	(893)		(2,058)
Total shareholders' equity	36,404	36,411	7	0.0	35,675
Valuation/translation gains (losses)					
Unrealized gains or losses on other securities	7	6	(1)		21
Foreign currency translation adjustments	1,091	1,094	2		1,064
Total valuation/translation gains (losses)	1,098	1,100	1	0.1	1,085
New share subscription rights	-	43	43	-	-
Minority interest in consolidated subsidiaries	4	6	1	40.5	4
Total net assets	37,508	37,562	54	0.1	36,765
Total liabilities and net assets	66,923	68,112	1,188	1.8	66,610

Consolidated statements of income (Summary)

Millions of yen	Nine months ended December 31, 2006	Nine months ended December 31, 2007	Increase/ decrease	Year ended % March 31, 2007	
Net sales	61,979	66,536	4,557	7.4	82,491
Cost of sales	35,247	37,639	2,392	6.8	46,600
Gross profit on sales	26,731	28,896	2,164	8.1	35,890
Selling, general and administrative expenses	22,588	24,751	2,162	9.6	30,195
Operating income	4,143	4,145	2	0.1	5,695
Non operating income					
Interest income	56	44	(11)		59
Foreign exchange gains	281	-	(281)		134
Others	205	131	(73)		257
	542	176	(366)	(67.6)	451
Non operating expenses					
Interest expenses	81	121	39		132
Foreign exchange losses	-	34	34		-
Others	297	205	(92)		529
	379	361	(18)	(4.9)	662
Ordinary profit	4,306	3,960	(345)	(8.0)	5,484
Extraordinary gains	45	13	(32)	(70.8)	108
Extraordinary losses	716	430	(286)	(39.9)	946
Income before adjustments for income taxes	3,634	3,542	(92)	(2.5)	4,646
Taxes	1,970	1,740	(230)	(11.7)	2,253
Minority interest in income of consolidated subsidiaries	4	1	(2)	(54.2)	4
Net income	1,660	1,800	140	8.5	2,389

Consolidated statements of cash flows (Summary)

Millions of yen	Nine months ended December 31, 2006	Nine months ended December 31, 2007	Year ended March 31, 2007
Net cash provided by operating activities			
Income before adjustments for income taxes	3,634	3,542	4,646
Depreciation expenses	1,623	1,881	2,287
Amortization of goodwill	211	177	197
Loss on disposal of fixed assets	160	30	165
Loss on business restructuring	170	350	341
Expenses related to business acquisitions	273	-	328
Gain on sales of tangible fixed assets	(24)	(8)	(28)
Increase (decrease) in allowance for doubtful accounts	28	41	82
Increase (decrease) in reserve for bonuses	13	(6)	32
Increase (decrease) in reserve for employees' retirement benefits	73	162	95
Interest and dividends received	(56)	(46)	(61)
Interest expenses	81	121	132
Foreign exchange loss (gain)	(285)	(101)	162
Decrease (increase) in notes and accounts receivable	(2,211)	(1,520)	(1,660)
Decrease (increase) in inventories	(411)	(708)	(818)
Decrease (increase) in prepaid expenses	(213)	(154)	(148)
Decrease (increase) in accounts receivable - other	(174)	(255)	(63)
Increase (decrease) in notes and accounts payable	(684)	125	(399)
Increase (decrease) in accounts payable - other	2,243	888	1,719
Others	(404)	34	(792)
	4,052	4,555	6,218
Interest and dividends received	56	46	61
Interest paid	(81)	(121)	(132)
Payments related to losses on business restructuring	(170)	(350)	(341)
Payments related to business acquisition expenses	(273)	-	(328)
Income taxes paid	(2,392)	(2,605)	(2,566)
	1,189	1,525	2,912
Net cash used in investing activities			
Payments for investments in securities	(41)	(101)	(41)
Proceeds from sales of investment securities	-	-	62
Purchase of tangible fixed assets	(2,846)	(1,327)	(3,728)
Proceeds from sales of tangible fixed assets	292	116	413
Purchase of intangible fixed assets	(304)	(482)	(203)
Expenses incurred for business acquisitions	(672)	-	(620)
Others	105	(234)	50
	(3,465)	(2,029)	(4,066)

Millions of yen	Nine months ended December 31, 2006	Nine months ended December 31, 2007	Year ended March 31, 2007
Net cash provided by (used in) financing activities			
Increase (decrease) in short-term borrowings	2,192	460	2,089
Increase (decrease) in long-term debt	227	-	(16)
Repayment of long-term debt	-	(8)	-
Proceeds from sales of treasury stock	5	-	5
Purchase of treasury stock	(609)	(893)	(610)
Cash dividends paid	(973)	(1,017)	(972)
	841	(1,458)	496
Effect of exchange rate changes on cash and cash equivalents	288	69	251
Net increase (decrease) in cash and cash equivalents	(1,145)	(1,892)	(406)
Cash and cash equivalents at beginning of term	10,751	10,344	10,751
Cash and cash equivalents at end of term	9,605	8,452	10,344

6. Segment information

Business segment information

Millions of yen	Mechatronic products business	Supply products business	Total	Eliminations	Consolidated
Nine months ended December 31, 2006					
Sales					
External customer sales	26,061	35,917	61,979	(-)	61,979
Intersegment transactions and eliminations	-	-	-	(-)	-
	26,061	35,917	61,979	(-)	61,979
Operating expenses	24,290	33,545	57,836	(-)	57,836
Operating income	1,771	2,371	4,143	(-)	4,143
Nine months ended December 31, 2007					
Sales					
External customer sales	27,577	38,959	66,536	(-)	66,536
Intersegment transactions and eliminations	-	-	-	(-)	-
	27,577	38,959	66,536	(-)	66,536
Operating expenses	25,592	36,798	62,391	(-)	62,391
Operating income	1,984	2,160	4,145	(-)	4,145
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 products business: electronic printers, hand labelers

Supply products business: labels/tags for electronic printers, labels for hand labelers, IC tags/labels, tickets, ribbons, MC-cards

Geographical segment information

Millions of yen	Japan	North America	Europe	Asia, Oceania	Total	Eliminations	Consolidated
Nine months ended December 31, 2006							
Sales							
External customers	43,065	6,895	7,833	4,184	61,979	-	61,979
Intersegment sales	1,959	92	1,016	9,043	12,112	(12,112)	-
	45,025	6,987	8,850	13,227	74,091	(12,112)	61,979
Operating expenses	40,751	6,495	9,190	13,136	69,574	(11,737)	57,836
Operating income	4,274	492	(340)	91	4,517	(374)	4,143
Nine months ended December 31, 2007							
Sales							
External customers	45,411	7,498	8,435	5,189	66,536	-	66,536
Intersegment sales	2,468	64	228	7,070	9,831	(9,831)	-
	47,879	7,563	8,663	12,260	76,367	(9,831)	66,536
Operating expenses	44,117	7,194	9,014	11,822	72,149	(9,758)	62,391
Operating income	3,762	369	(351)	437	4,218	(73)	4,145
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, UK, Poland, Belgium, France and Spain
 - (3) Asia and Oceania: Malaysia, Singapore, Thailand, China, Vietnam, Australia and New Zealand

Overseas sales

Millions of yen	Nine months ended December 31, 2006		Nine months ended December 31, 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	6,895	11.1	7,498	11.3	9,422	11.4
Europe	7,833	12.6	8,435	12.7	10,809	13.1
Asia, others	4,184	6.8	5,189	7.8	5,735	7.0
	18,913	30.5	21,124	31.7	25,967	31.5
Consolidated sales	61,979		66,536		82,491	

(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., Canada
 - (2) Europe: Germany, UK, France, Italy, etc.
 - (3) Asia, etc.: Malaysia, Singapore, Thailand, China, Australia, etc.
3. Overseas sales are composed of sales made in countries and regions other than Japan by the Company and its consolidated subsidiaries.