

# Consolidated Financial Report for the First Six Months of the March 2012 Term <Under Japanese GAAP>

October 28, 2011

## SATO HOLDINGS CORPORATION

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

Shares traded on: TSE1

Executive position of legal representative: Kazuo Matsuyama, President and CEO,  
Representative Director

Please address all communications to: Akihiro Kushida, Senior Executive Officer,  
General Manager, Corporate Planning Division  
Phone: 03-6665-0639

Scheduled submission date for quarterly securities report: November 10, 2011  
Date of commencement of dividend payments: December 5, 2011  
Supplementary explanatory materials for quarterly results: Available  
Holding of meeting to explain quarterly results (for analysts and institutional investors): Yes

### 1. Consolidated operating results for the first six months of the fiscal year ending March 31, 2012 (from April 1, 2011 to September 30, 2011)

#### (1) Consolidated financial results (cumulative)

(In millions of yen, with fractional amounts discarded)  
(Percentage figures show year-on-year change)

Six months ended	Net sales		Operating income		Ordinary income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
September 30, 2011	39,279	1.7	1,864	2.5	1,290	(20.1)
September 30, 2010	38,605	5.8	1,819	136.6	1,614	91.9

(Note) Comprehensive income: Six months ended September 30, 2011: ¥(317) million (-%)  
Six months ended September 30, 2010: ¥(21) million (-%)

Six months ended	Net income		Net income per share	Net income per share, fully diluted
	(Millions of yen)	%	(Yen)	(Yen)
September 30, 2011	697	0.5	23.16	–
September 30, 2010	693	161.9	23.04	–

#### (2) Consolidated financial position

As of	Total assets	Net assets	Equity ratio	Net assets per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
September 30, 2011	64,110	34,006	52.9	1,126.70
March 31, 2011	66,134	34,929	52.7	1,156.88

(N.B.) Total equity:

As of September 30, 2011: ¥33,925 million

As of March 31, 2011: ¥34,834 million

## 2. Dividends

	Annual dividend per share				
	First quarter	Second quarter	Third quarter	Year-end	Total
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)
March 31, 2011	–	16.00	–	18.00	34.00
March 31, 2012	–	17.00			
March 31, 2012 (Forecast)			–	17.00	34.00

(Note) Revisions of projected dividends most recently announced: None

## 3. Consolidated forecasts for the fiscal year ending March 31, 2012 (from April 1, 2011 to March 31, 2012)

(Percentage figures show year-on-year change)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Yen)
Annual	82,000	4.6	4,800	13.6	4,200	13.6	2,400	377.0	79.71

(Note) Revisions of consolidated forecasts most recently announced: Yes

## 4. Others

(1) Changes in significant subsidiaries during the first six months (changes in specified subsidiaries resulting in the change in scope of consolidation): None

(2) Application of special accounting for preparing the quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections

1) Changes in accounting policies due to revisions to accounting standards: None

2) Changes in accounting policies due to other reasons: None

3) Changes in accounting estimates: None

4) Restatement of prior period financial statements after error corrections: None

(4) Number of issued shares (common stock)

1) Number of issued shares at the end of term (including treasury stock):

As of September 30, 2011: 32,001,169 shares

As of March 31, 2011: 32,001,169 shares

2) Number of shares of treasury stock at the end of term:

As of September 30, 2011: 1,890,999 shares

As of March 31, 2011: 1,890,699 shares

3) Average number of shares during the term (cumulative from the beginning of the fiscal year to the end of the first six months)

Six months ended September 30, 2011: 30,110,249 shares

Six months ended September 30, 2010: 30,110,947 shares

**\* Indication about carrying-out of the quarterly review procedures**

*This quarterly financial report is not subject to the quarterly review procedures based on the Financial Instruments and Exchange Act of Japan. At the time of disclosure of this quarterly financial report, the procedures to review quarterly financial statements based on the Financial Instruments and Exchange Act have not been completed.*

**\* Explanation about the proper use of consolidated forecasts and other notes**

*Forward-looking statements, including the consolidated forecasts stated in these materials, are based on information currently available to the Company and certain assumptions deemed reasonable. Results may differ materially from the consolidated forecasts due to various factors. Please refer to the section of “Qualitative information on consolidated forecasts” on pages 4-5 of the attached materials to the quarterly financial report for the suppositions that form the assumptions for consolidated forecasts and cautions concerning the use thereof.*

## Attached Materials

### Index

1. Qualitative Information Regarding Settlement of Accounts for the First Six Months.....	2
(1) Qualitative information on consolidated financial results (percentage changes, year-on-year).....	2
(2) Qualitative information on consolidated financial position .....	4
(3) Qualitative information on consolidated forecasts .....	4
2. Matters Regarding Summary Information (Others).....	5
(1) Changes in significant subsidiaries during the first six months.....	5
(2) Application of special accounting for preparing the quarterly consolidated financial statements.....	5
(3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections .....	5
3. Consolidated Financial Statements .....	6
(1) Consolidated balance sheets .....	6
(2) Consolidated statements of (comprehensive) income.....	8
(Consolidated statements of income) .....	8
(Consolidated statements of comprehensive income).....	9
(3) Consolidated statements of cash flows .....	10
(4) Notes related to going-concern assumption .....	12
(5) Segment information .....	12
(6) Notes in the event of material changes in amount of shareholders' equity.....	13

## 1. Qualitative Information Regarding Settlement of Accounts for the First Six Months

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

In the first six months ended September 30, 2011, Japan's production activities were returning to normal because of a rapid recovery of the supply network. In this way and others, economic activities in Japan have followed a trend of gradual recovery. Nevertheless, the outlook for the economy is clouded by uncertainty, with one of the concerns being the strong yen, which sharply appreciated in the second half of the period.

Under this business environment, the SATO Group worked to improve productivity, reduce manufacturing costs and find savings in various business expenses. Aiming to expand sales in our overseas business, we are also fortifying efforts to achieve business expansion such as by providing stronger support from Japan to accelerate the globalization of our operation.

As a result of these activities, during the first six months, the SATO Group recorded an increase in net sales, up 1.7% from the same period of the previous fiscal year to ¥39,279 million and an increase in operating income, up 2.5% to ¥1,864 million. Ordinary income decreased by 20.1% to ¥1,290 million and foreign exchange losses were ¥572 million. Net income increased by 0.5% to ¥697 million.

#### <Japan>

Through our industry-centered business unit structure, we continued to proactively offer proposals that accurately met consumer needs. During the first six months, the impact from the earthquake remained but we were able to maintain sales of supply products at a level equivalent to that of the same period of the previous year. Looking ahead, we expect to make a full recovery as corporate production activities return to normal. Sales of mechatronic products were positive with electronic printers showing notable recovery particularly in the manufacturing industry owing to business expansion in growth markets and energetic proposals of new applications for our products. In addition, we received an increase in inquiries concerning new technology proposals for auto-identification. Through such proposals for new applications, we expect to achieve new market development for the future. As a result of these efforts, net sales rose 2.1% to ¥29,985 million while operating income rose 6.6% to ¥1,697 million, compared to the same period of the previous fiscal year.

#### <Americas>

Inquiries from OEMs are steadily expanding. In addition, inquiries for markdown control systems for large retailers as well as consumables expiry date management systems for food products are also in progress. Based on this, we expect sales to expand in the future. Also, in addition to bolstering sales activities to boost the sales of our apparel tag printing service bureau, we continued our business expansion in Central and South America. While last year our focus was on Argentina, this year we worked to expand our business locations in Brazil

such as through the acquisition of EUROPEAN DO BRASIL LTDA. as a subsidiary. As a result of these efforts, net sales fell 5.3% to ¥3,000 million (a rise of 5.6%, however, excluding foreign currency effects) and operating income fell 8.3% to ¥66 million, compared to the same period of the previous fiscal year.

<Europe>

A new label factory in Poland is now in full operation, and we have established a system that enables supply products to be produced and supplied at a low cost to Germany and the Benelux region. Following this, the manufacturing subsidiary in Germany went into liquidation and this, together with other measures, marked the end of the structural reform measures that we have undertaken in order to strengthen our earnings base. We began to see a clear path towards profitability from the third quarter onwards for overall European operations. As for activities affecting sales, while there was brisk activity with respect to inquiries for markdown systems, we prepared to cultivate new sales channels by enhancing our distributor network and promoting business cooperation with system dealers. As a result of these efforts, net sales fell 0.8% to ¥3,043 million (a rise of 0.5%, however, excluding foreign currency effects), and there was an operating loss of ¥121 million, compared with an operating loss of ¥104 million in the same period of the previous fiscal year.

<Asia and Oceania>

In the Asia region, despite the earthquake's impact causing a temporary lull in orders from Japanese-owned companies in Asia and a weakening of growth in the first half of the current period, this lull in orders recovered in the second half of the period, and earnings were lifted by increased demand from sectors such as the manufacturing industry, major transport companies and government projects. In China we capitalized on demands in the growing market such as seizing the demand for rationalization arising from soaring personnel expenses and starting operations of product assembly plants in China to satisfy the demand for "made in China" products. We will continue to further strengthen support from Japan.

In the Oceania region, in addition to strong sales to the dairy produce and meat processing sectors, inquiries concerning multiple large contracts for products to be used in the healthcare sector are progressing. As a result of these efforts, net sales rose 8.0% to ¥3,250 million (a rise of 9.1%, however, excluding foreign currency effects), and operating income rose 7.1% to ¥224 million, compared to the same period of the previous fiscal year.

By product, the SATO Group reported the following:

- a. Net sales of mechatronic products increased by 3.9% to ¥15,013 million compared to the same period of the previous fiscal year.
- b. Net sales of supply products increased by 0.4% to ¥24,266 million compared to the same period of the previous fiscal year.

## **(2) Qualitative information on consolidated financial position**

Total assets at the end of the second quarter were ¥64,110 million, a decrease of ¥2,023 million compared to the end of the previous fiscal year. This was primarily the result of decreases in cash and deposits and inventories. Net assets were ¥34,006 million, a ¥922 million decrease, due to the payment of cash dividends from shareholders' equity and the decrease in foreign currency translation adjustment.

### ***Cash flows***

At the end of the second quarter, cash and cash equivalents (referred to below as "cash") stood at ¥9,623 million, a decrease of ¥1,190 million compared to the end of the previous fiscal year.

### ***Net cash provided by operating activities***

Net cash provided by operating activities amounted to ¥1,071 million, a decrease of 49.6% compared to the same period of the previous fiscal year.

The increase in cash reflected principally income before income taxes and minority interests of ¥1,178 million and ¥932 million in depreciation and amortization. Contributing to a decrease in cash were a ¥478 million decrease in notes and accounts payable-trade and a ¥494 million decrease in accounts payable-other.

### ***Net cash used in investing activities***

Net cash used in investing activities totaled ¥711 million, a decrease of 80.8% compared to the same period of the previous fiscal year.

This resulted primarily from expenditures of ¥308 million for the purchase of property, plant and equipment and ¥226 million for the purchase of intangible assets.

### ***Net cash used in financing activities***

Net cash used in financing activities totaled ¥1,120 million, compared to ¥1,195 million cash provided by financing activities in the same period of the previous fiscal year.

This primarily reflected repayment of long-term loans payable of ¥338 million and cash dividends paid of ¥541 million.

## **(3) Qualitative information on consolidated forecasts**

Regarding consolidated forecasts, in Japan we expect to achieve a further increase in sales as a result of the cultivation of major clients by each business unit and the increase in inquiries concerning new applications for our products. Aside from this, we expect inquiries in Asia and Oceania to continue briskly. On the other hand, considering the amount of the effect of foreign currency valuation because of the sharp appreciation of the yen during the first six months, the forecast of ordinary income has been revised.

In light of these circumstances, the consolidated forecasts for the fiscal year ending March 31, 2012 are as follows.

Consolidated forecasts for the fiscal year ending March 31, 2012

Net sales	¥82,000 million	(previous forecast ¥82,000 million)
Operating income	¥4,800 million	(previous forecast ¥4,800 million)
Ordinary income	¥4,200 million	(previous forecast ¥4,600 million)
Net income	¥2,400 million	(previous forecast ¥2,400 million)

The assumed foreign exchange rates are as follows.

The assumed foreign exchange rates for the third quarter and beyond are US\$1 = ¥77 and €1 = ¥107. (The assumption in the previous forecast: US\$1 = ¥84 and €1 = ¥120)

## **2. Matters Regarding Summary Information (Others)**

### **(1) Changes in significant subsidiaries during the first six months**

Not Applicable

### **(2) Application of special accounting for preparing the quarterly consolidated financial statements**

Not Applicable

### **(3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections**

Not Applicable

### 3. Consolidated Financial Statements

#### (1) Consolidated balance sheets

Unit: Millions of yen

	March 31, 2011	September 30, 2011
Assets		
Current assets		
Cash and deposits	10,680	9,475
Notes and accounts receivable-trade	17,253	17,140
Short-term investment securities	184	179
Merchandise and finished goods	6,331	5,978
Work in process	125	117
Raw materials and supplies	1,609	1,483
Other	3,768	4,085
Allowance for doubtful accounts	(113)	(103)
Total current assets	39,841	38,358
Noncurrent assets		
Property, plant and equipment		
Land	7,672	7,667
Other, net	10,236	9,869
Total property, plant and equipment	17,908	17,537
Intangible assets		
Goodwill	454	398
Other	1,390	1,339
Total intangible assets	1,845	1,738
Investments and other assets	6,538	6,477
Total noncurrent assets	26,293	25,752
Total assets	66,134	64,110

Unit: Millions of yen

	March 31, 2011	September 30, 2011
<b>Liabilities</b>		
<b>Current liabilities</b>		
Notes and accounts payable-trade	4,751	4,203
Short-term loans payable	5,573	5,427
Accounts payable-other	12,229	11,504
Income taxes payable	205	678
Provision	258	199
Other	3,230	3,460
<b>Total current liabilities</b>	<b>26,247</b>	<b>25,473</b>
<b>Noncurrent liabilities</b>		
Long-term loans payable	1,377	1,055
Provision for retirement benefits	1,696	1,625
Other	1,884	1,949
<b>Total noncurrent liabilities</b>	<b>4,957</b>	<b>4,630</b>
<b>Total liabilities</b>	<b>31,204</b>	<b>30,103</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Capital stock	6,331	6,331
Capital surplus	5,799	5,799
Retained earnings	27,837	27,992
Treasury stock	(3,458)	(3,459)
<b>Total shareholders' equity</b>	<b>36,508</b>	<b>36,663</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	(0)	(0)
Foreign currency translation adjustment	(1,674)	(2,737)
<b>Total accumulated other comprehensive income</b>	<b>(1,674)</b>	<b>(2,738)</b>
Subscription rights to shares	86	72
Minority interests	9	9
<b>Total net assets</b>	<b>34,929</b>	<b>34,006</b>
<b>Total liabilities and net assets</b>	<b>66,134</b>	<b>64,110</b>

**(2) Consolidated statements of (comprehensive) income**  
**(Consolidated statements of income)**

Unit: Millions of yen

	Six months ended September 30, 2010	Six months ended September 30, 2011
Net sales	38,605	39,279
Cost of sales	22,325	22,709
Gross profit	16,279	16,570
Selling, general and administrative expenses	14,459	14,706
Operating income	1,819	1,864
Non-operating income		
Interest income	14	22
Dividends income	0	0
Rent income	44	53
Other	47	67
Total non-operating income	106	143
Non-operating expenses		
Interest expenses	55	56
Foreign exchange losses	180	572
Other	75	87
Total non-operating expenses	311	717
Ordinary income	1,614	1,290
Extraordinary income		
Gain on sales of noncurrent assets	11	0
Gain on reversal of subscription rights to shares	-	13
Other	2	-
Total extraordinary income	13	14
Extraordinary loss		
Restructuring loss	100	116
Loss on retirement of noncurrent assets	20	-
Loss on sales of noncurrent assets	0	0
Office transfer expenses	72	-
Loss on valuation of investment securities	-	4
Other	16	4
Total extraordinary losses	209	125
Income before income taxes and minority interests	1,418	1,178
Income taxes-current	700	600
Income taxes-deferred	23	(120)
Total income taxes	724	480
Income before minority interests	694	698
Minority interests in income	0	0
Net income	693	697

**(Consolidated statements of comprehensive income)**

Unit: Millions of yen

	Six months ended September 30, 2010	Six months ended September 30, 2011
Income before minority interests	694	698
Other comprehensive income		
Valuation difference on available-for-sale securities	(1)	(0)
Foreign currency translation adjustment	(714)	(1,014)
Total other comprehensive income	(716)	(1,015)
Comprehensive income	(21)	(317)
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	(22)	(317)
Comprehensive income attributable to minority interests	0	0

### (3) Consolidated statements of cash flows

Unit: Millions of yen

	Six months ended September 30, 2010	Six months ended September 30, 2011
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	1,418	1,178
Depreciation and amortization	1,016	932
Amortization of goodwill	49	41
Loss (gain) on sales of noncurrent assets	(10)	0
Loss on retirement of noncurrent assets	20	-
Loss on business restructuring	100	116
Increase (decrease) in provision	3	(47)
Increase (decrease) in allowance for doubtful accounts	28	9
Increase (decrease) in provision for retirement benefits	(4)	10
Interest and dividends income	(14)	(22)
Interest expenses	55	56
Foreign exchange losses (gains)	37	(169)
Decrease (increase) in notes and accounts receivable-trade	(125)	(193)
Decrease (increase) in inventories	(262)	71
Increase (decrease) in notes and accounts payable-trade	143	(478)
Increase (decrease) in accounts payable-other	404	(494)
Other, net	20	48
Subtotal	2,881	1,059
Interest and dividends income received	14	23
Interest expenses paid	(54)	(57)
Payments for business restructuring	(100)	-
Income taxes paid	(615)	(373)
Income taxes refund	-	419
Net cash provided by (used in) operating activities	2,126	1,071
Net cash provided by (used in) investing activities		
Payments into time deposits	-	(24)
Proceeds from withdrawal of time deposits	-	43
Purchase of investment securities	-	(112)
Purchase of property, plant and equipment	(3,606)	(308)
Proceeds from sales of property, plant and equipment	29	9
Purchase of intangible assets	(105)	(226)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(59)	(43)
Other, net	37	(49)
Net cash provided by (used in) investing activities	(3,704)	(711)

Unit: Millions of yen

	Six months ended September 30, 2010	Six months ended September 30, 2011
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	(109)	(124)
Proceeds from long-term loans payable	2,000	-
Repayment of long-term loans payable	(166)	(338)
Cash dividends paid	(511)	(541)
Other, net	(17)	(115)
Net cash provided by (used in) financing activities	1,195	(1,120)
Effect of exchange rate change on cash and cash equivalents	(331)	(429)
Net increase (decrease) in cash and cash equivalents	(713)	(1,190)
Cash and cash equivalents at beginning of period	13,774	10,813
Cash and cash equivalents at end of period	13,060	9,623

#### (4) Notes related to going-concern assumption

Not Applicable

#### (5) Segment information

I. Six months ended September 30, 2010 (from April 1, 2010 to September 30, 2010)

1. Information on net sales and profit or loss by reportable segment

	Unit: Millions of yen				
	Japan	Americas	Europe	Asia and Oceania	Total
Net sales					
External customer sales	29,359	3,168	3,067	3,010	38,605
Intersegment sales and transfer	2,246	41	120	2,707	5,116
Total	31,605	3,209	3,187	5,718	43,721
Segment profit (loss)	1,591	72	(104)	209	1,768

2. The difference between the total amount of profit or loss for reportable segments and the amount recorded on the consolidated statements of income, and the major breakdown of the difference (Matters related to difference adjustment)

	Unit: Millions of yen
<b>Profit</b>	<b>Amount</b>
Reportable segments total	1,768
Intersegment eliminations	(14)
Amortization of goodwill	(43)
Adjustment of inventories	106
Other adjustment	3
Operating income on the consolidated statements of income	1,819

3. Information on impairment loss of noncurrent assets, goodwill and negative goodwill, etc. by reportable segment

Not Applicable

II. Six months ended September 30, 2011 (from April 1, 2011 to September 30, 2011)

1. Information on net sales and profit or loss by reportable segment

Unit: Millions of yen					
	Japan	Americas	Europe	Asia and Oceania	Total
Net sales					
External customer sales	29,985	3,000	3,043	3,250	39,279
Intersegment sales and transfer	2,287	30	119	2,722	5,159
Total	32,273	3,031	3,162	5,972	44,439
Segment profit (loss)	1,697	66	(121)	224	1,866

2. The difference between the total amount of profit or loss for reportable segments and the amount recorded on the consolidated statements of income, and the major breakdown of the difference (Matters related to difference adjustment)

Unit: Millions of yen	
Profit	Amount
Reportable segments total	1,866
Intersegment eliminations	7
Amortization of goodwill	(14)
Adjustment of inventories	5
Other adjustment	0
Operating income on the consolidated statements of income	1,864

3. Information on impairment loss of noncurrent assets, goodwill and negative goodwill, etc. by reportable segment

Not Applicable

**(6) Notes in the event of material changes in amount of shareholders' equity**

Not Applicable