

Consolidated Financial Report  
for the First Six Months of the March 2014 Term  
<Under Japanese GAAP>

October 25, 2013

**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 and  
Chief Financial Officer (CFO), Director  
Phone: 03-6665-0639

Scheduled submission date for quarterly securities report: November 8, 2013

Date of commencement of dividend payments: December 5, 2013

Supplementary explanatory materials for quarterly results: Available

Holding of meeting to explain quarterly results (for analysts and institutional investors): Yes

(In millions of yen, with fractional amounts discarded)

**1. Consolidated operating results for the first six months of the fiscal year ending  
March 31, 2014 (from April 1, 2013 to September 30, 2013)**

(1) Consolidated financial results (cumulative)

(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, 2013	46,113	8.1	2,947	23.3	3,189	75.3
September 30, 2012	42,666	8.6	2,391	28.3	1,819	41.0

(Note) Comprehensive income: Six months ended September 30, 2013: ¥2,274 million (-%)  
Six months ended September 30, 2012: ¥(179) million (-%)

Six months ended	Net income		Net income per share	Net income per share, fully diluted
	(Millions of yen)	%	(Yen)	(Yen)
September 30, 2013	1,893	159.7	62.90	56.48
September 30, 2012	729	4.6	24.22	21.89

## (2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	(Millions of yen)	(Millions of yen)	%	(Yen)
September 30, 2013	78,926	41,885	52.9	1,386.76
March 31, 2013	77,521	40,205	51.7	1,330.77

(N.B.) Total equity:

As of September 30, 2013: ¥41,753 million

As of March 31, 2013: ¥40,068 million

## 2. Dividends

	Annual dividend per share				
	First quarter	Second quarter	Third quarter	Year-end	Total
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)
March 31, 2013	–	17.00	–	20.00	37.00
March 31, 2014	–	18.00			
March 31, 2014 (Forecast)			–	20.00	38.00

(Note) Revisions of projected dividends most recently announced: Yes

For details, please refer to the Japanese news release dated October 25, 2013, "SATO (Upwardly) Revises Year-end Dividend Forecast." Summary of news release: as part of SATO Group's commitment to provide stable and continuous dividends to its shareholders, and in light of the Group's recent financial performance and current business environment, the Group made the decision to increase the year-end dividend for FY2013 by ¥1 per share to ¥20. This, added to the interim (second quarter) dividend of ¥18, raises the total dividend for fiscal year ending March 31, 2014 to ¥38.

## 3. Consolidated forecasts for the fiscal year ending March 31, 2014 (from April 1, 2013 to March 31, 2014)

(Percentage figures show year-on-year change)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	(Millions of yen)	%	(Yen)						
Annual	96,000	10.0	6,500	19.2	6,500	19.7	3,700	35.7	122.89

(Note) Revisions of consolidated forecasts most recently announced: None

**\* Notes**

(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, 2013: 32,001,169 shares

As of March 31, 2013: 32,001,169 shares

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

As of September 30, 2013: 1,892,383 shares

As of March 31, 2013: 1,891,989 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, 2013: 30,108,952 shares

Six months ended September 30, 2012: 30,109,818 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 consolidated 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. Consequently, any statements herein do not constitute assurances regarding actual results by the Company. Results may differ materially from the consolidated forecasts due to various factors. Please refer to page 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

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

### (1) Explanation of financial results (percentage changes, year-on-year)

The SATO Group's management objective is to establish sustainable growth capability and revenue base while following its basic strategy to "pursue globalization and maximization of customer value." To this end, the SATO Group is implementing the following measures:

- ① Apply the success achieved with the business unit structure in Japan to other countries
- ② Develop growing markets in emerging countries
- ③ Establish highly profitable consumables business overseas
- ④ Execute measures to strengthen earning power (Business, Applications, Products, Cost)
- ⑤ Optimise management group-wide (IT, SCM, Finance, Human Resource Development)
- ⑥ Expand environmental conservation business

In the first six months ended September 30, 2013, as a result of the above activities, which in particular led to sales recovery and noticeably improved profitability in business overseas, the SATO Group recorded an increase in net sales, up 8.1% from the same period of the previous fiscal year to ¥46,113 million and an increase in operating income, up 23.3% to ¥2,947 million. Ordinary income increased by 75.3% to ¥3,189 million and net income increased by 159.7% to ¥1,893 million.

Net sales were a record high for any half-year period while operating income, ordinary income and net income were all record highs for a first-half period.

By segment, the SATO Group reported the following:

#### <Japan>

During the first six months, the SATO Group observed a cautious stance toward capital investment hindering demand, particularly in the manufacturing industry, and inquiries weakened for mechatronic products, mostly electronic printers. However, in the second half of these first six months, a trend of recovery was observed, such as growing demand related to streamlining operations mainly in the non-manufacturing industries including the transportation industry. Identifying improvements in business sentiment, we sought out this demand by actively expanding our sales activities. As a result, our efforts to develop new applications are gradually yielding success.

While further strengthening cost-cutting initiatives, we will also create new demand by expanding into growing markets and proposing new applications. Accordingly, the SATO Group will continue to strengthen sales activities aimed at future business expansion.

As a result of these efforts, net sales rose 0.7% to ¥32,195 million while operating income dropped 3.6% to ¥1,993 million, compared to the same period of the previous fiscal year.

Accompanying the decision by the Japanese government to change the consumption tax rate from April next year, we foresee demand for price tag changing, especially among retail trading companies. The SATO group is adjusting its internal organizational structure and developing proposal based sales that allow optimum utilization of the Company's know-how.

#### <Americas>

In the North American market, existing business was firm on the back of demand for printers for major retail pharmacy chain stores and for the apparel industry, and the continuation of business negotiations with OEMs for food products expiry date management systems. In the South American market, meanwhile, the operating results of Achernar S.A. of Argentina were strong.

As a result of these efforts, net sales rose 33.5% to ¥4,622 million (a rise of 7.3%, however, excluding foreign currency effects), and operating income rose 87.4% to ¥265 million, compared to the same period of the previous fiscal year.

#### <Europe>

In Europe, the SATO Group steadily cultivated sales channels in each country for our sticker and label products, and implemented sales strategies aimed at improving profitability. We are steadily achieving successful outcomes with active inquiries and orders received for large-volume labels for the transportation sector and the retail sector in the U.K. and the establishment of RFID inquiries for a large apparel company in Germany. Moreover, we achieved successful outcomes from structural reforms carried out to date such as realizing the establishment of a lower-cost production supply system by revising the label production system, thus achieving a transition to a profitable business structure.

As a result of these efforts, net sales rose 35.4% to ¥3,420 million (a rise of 6.7%, however, excluding foreign currency effects), and there was an operating income of ¥73 million, compared with an operating loss of ¥114 million in the same period of the previous fiscal year.

#### <Asia and Oceania>

Although the Asian market lacked momentum on account of the weakening economic growth of emerging countries, our operating results improved compared with the previous year, as signs of a pickup were observed in the Chinese market, and sales of the new key markets grew according to forecast, owing to the new contribution of sales from Indonesia and Vietnam where operations commenced in the second half of the previous fiscal year.

In view of more Japanese companies shifting to Asia against a backdrop of growing middle-income populations in Asia's emerging countries and the rising awareness for safety and peace of mind, we have established key accounts for the four industry sectors of "Healthcare, Automotive, Transportation and Logistics, and General Merchandise Stores and Convenience Stores" while establishing specialized teams in Japan to provide and strengthen support.

Moreover, through our synergy with Argox Information Co., Ltd. of Taiwan, we intend to accelerate our development of the markets in emerging countries and establish a superior competitive position by starting the supply of products through mutual use of both companies' sales channels.

As a result of these efforts, net sales rose 25.1% to ¥5,876 million (a rise of 2.0%, however, excluding foreign currency effects), and operating income rose 101.8% to ¥639 million, compared to the same period of the previous fiscal year.

## **(2) Explanation of financial position**

Total assets at the end of the second quarter were ¥78,926 million, an increase of ¥1,404 million compared to the end of the previous fiscal year. This was primarily the result of increases in cash and deposits, property, plant and equipment, and investment securities. Net assets were ¥41,885 million, a ¥1,680 million increase, due to the recording of net income and an increase in foreign currency translation adjustment notwithstanding the payment of cash dividends.

### ***Cash flows***

At the end of the second quarter, cash and cash equivalents (referred to below as “cash”) stood at ¥14,993 million, an increase of ¥3,001 million compared to the end of the previous fiscal year.

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

Net cash provided by operating activities amounted to ¥5,935 million, an increase of 423.6% compared to the same period of the previous fiscal year.

The increase in cash reflected principally ¥3,182 million in income before income taxes and minority interests, ¥1,022 million in depreciation and amortization, a ¥1,477 million decrease in notes and accounts receivable-trade and ¥1,035 million in income taxes refund. Contributing to a decrease in cash were a ¥383 million decrease in accounts payable-other, and ¥562 million in income taxes paid.

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

Net cash used in investing activities totaled ¥2,482 million, an increase of 228.6% compared to the same period of the previous fiscal year.

This resulted primarily from expenditures of ¥977 million for the purchase of investment securities and ¥1,086 million for the purchase of property, plant and equipment.

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

Net cash used in financing activities was ¥593 million, a decrease of 69.4% compared to the same period of the previous fiscal year.

This resulted primarily from an expenditure of ¥669 million for the repayment of long-term loans payable and ¥601 million in cash dividends paid, offsetting ¥1,000 million in proceeds from long-term loans payable.

**(3) Explanation of consolidated forecasts and other projections**

Regarding the consolidated forecasts for the fiscal year ending March 31, 2014, no changes have been made to the forecasts that were announced on July 26, 2013.

**2. Matters Regarding Summary Information (Notes)**

**Changes in significant subsidiaries during the first six months**

Not Applicable

### 3. Consolidated Financial Statements

#### (1) Consolidated balance sheets

Unit: Millions of yen

	March 31, 2013	September 30, 2013
<b>Assets</b>		
Current assets		
Cash and deposits	12,577	15,626
Notes and accounts receivable-trade	20,942	19,694
Securities	93	149
Merchandise and finished goods	6,632	6,487
Work in process	190	299
Raw materials and supplies	1,858	1,963
Income taxes receivable	1,035	-
Other	3,446	3,460
Allowance for doubtful accounts	(86)	(98)
Total current assets	46,690	47,582
Noncurrent assets		
Property, plant and equipment		
Land	7,657	7,610
Other, net	11,037	11,542
Total property, plant and equipment	18,694	19,152
Intangible assets		
Goodwill	4,774	4,533
Other	1,825	1,870
Total intangible assets	6,600	6,403
Investments and other assets	5,536	5,788
Total noncurrent assets	30,831	31,344
Total assets	77,521	78,926
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable-trade	5,180	4,891
Short-term loans payable	3,954	3,243
Accounts payable-other	13,372	12,701
Income taxes payable	478	630
Provision	231	308
Other	4,187	4,189
Total current liabilities	27,405	25,965
Noncurrent liabilities		
Bonds with subscription rights to shares	5,000	5,000
Long-term loans payable	1,041	2,039
Provision for retirement benefits	1,324	1,388
Other	2,545	2,646
Total noncurrent liabilities	9,911	11,075
Total liabilities	37,316	37,040

Unit: Millions of yen

	March 31, 2013	September 30, 2013
Net assets		
Shareholders' equity		
Capital stock	6,331	6,331
Capital surplus	5,799	5,799
Retained earnings	30,577	31,868
Treasury stock	(3,460)	(3,461)
Total shareholders' equity	39,247	40,538
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	0	4
Foreign currency translation adjustment	820	1,210
Total accumulated other comprehensive income	821	1,215
Subscription rights to shares	-	8
Minority interests	136	123
Total net assets	40,205	41,885
Total liabilities and net assets	77,521	78,926

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

Unit: Millions of yen

	Six months ended September 30, 2012	Six months ended September 30, 2013
Net sales	42,666	46,113
Cost of sales	24,932	26,633
Gross profit	17,733	19,480
Selling, general and administrative expenses	15,342	16,533
Operating income	2,391	2,947
Non-operating income		
Interest income	24	28
Dividends income	0	0
Foreign exchange gains	-	188
Rent income	67	77
Other	49	104
Total non-operating income	141	399
Non-operating expenses		
Interest expenses	56	62
Foreign exchange losses	549	-
Other	108	94
Total non-operating expenses	713	157
Ordinary income	1,819	3,189
Extraordinary income		
Gain on sales of noncurrent assets	3	23
Total extraordinary income	3	23
Extraordinary loss		
Loss on retirement of noncurrent assets	1	2
Loss on sales of noncurrent assets	1	28
Total extraordinary losses	3	30
Income before income taxes and minority interests	1,819	3,182
Income taxes-current	586	743
Income taxes-deferred	502	541
Total income taxes	1,088	1,285
Income before minority interests	730	1,897
Minority interests in income	1	3
Net income	729	1,893

**(Consolidated statements of comprehensive income)**

Unit: Millions of yen

	Six months ended September 30, 2012	Six months ended September 30, 2013
Income before minority interests	730	1,897
Other comprehensive income		
Valuation difference on available-for-sale securities	0	3
Foreign currency translation adjustment	(910)	373
Total other comprehensive income	(910)	377
Comprehensive income	(179)	2,274
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	(177)	2,288
Comprehensive income attributable to minority interests	(2)	(13)

### (3) Consolidated statements of cash flows

Unit: Millions of yen

	Six months ended September 30, 2012	Six months ended September 30, 2013
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	1,819	3,182
Depreciation and amortization	916	1,022
Amortization of goodwill	403	490
Loss (gain) on sales of noncurrent assets	(1)	5
Loss on retirement of noncurrent assets	1	2
Increase (decrease) in provision	4	75
Increase (decrease) in allowance for doubtful accounts	(24)	(10)
Increase (decrease) in provision for retirement benefits	3	7
Interest and dividends income	(24)	(28)
Interest expenses	56	62
Foreign exchange losses (gains)	(21)	(258)
Decrease (increase) in notes and accounts receivable-trade	(153)	1,477
Decrease (increase) in inventories	443	45
Increase (decrease) in notes and accounts payable-trade	255	(323)
Increase (decrease) in accounts payable-other	148	(383)
Other, net	(511)	150
Subtotal	3,313	5,518
Interest and dividends income received	24	24
Interest expenses paid	(54)	(56)
Payments for business restructuring	-	(23)
Income taxes paid	(2,150)	(562)
Income taxes refund	-	1,035
Net cash provided by (used in) operating activities	1,133	5,935
Net cash provided by (used in) investing activities		
Payments into time deposits	(428)	(491)
Proceeds from withdrawal of time deposits	431	421
Purchase of investment securities	(0)	(977)
Purchase of property, plant and equipment	(371)	(1,086)
Proceeds from sales of property, plant and equipment	17	114
Purchase of intangible assets	(371)	(574)
Other, net	(32)	111
Net cash provided by (used in) investing activities	(755)	(2,482)

Unit: Millions of yen

	Six months ended September 30, 2012	Six months ended September 30, 2013
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	(5,978)	(72)
Proceeds from long-term loans payable	-	1,000
Repayment of long-term loans payable	(340)	(669)
Proceeds from issuance of bonds with subscription rights to shares	5,000	-
Repayments of lease obligations	(130)	(249)
Cash dividends paid	(541)	(601)
Other, net	51	(0)
Net cash provided by (used in) financing activities	(1,938)	(593)
Effect of exchange rate change on cash and cash equivalents	(234)	142
Net increase (decrease) in cash and cash equivalents	(1,794)	3,001
Cash and cash equivalents at beginning of period	11,377	11,992
Cash and cash equivalents at end of period	9,583	14,993

#### (4) Notes to consolidated financial statements

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

Not Applicable

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

Not Applicable

##### (Segment information)

I. Six months ended September 30, 2012 (from April 1, 2012 to September 30, 2012)

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	31,981	3,461	2,526	4,697	42,666
Intersegment sales and transfer	1,902	36	111	2,421	4,471
Total	33,884	3,497	2,637	7,118	47,138
Segment profit (loss)	2,068	141	(114)	316	2,412

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	2,412
Intersegment eliminations	10
Amortization of goodwill	(21)
Adjustment of inventories	(5)
Other adjustment	(3)
Operating income on the consolidated statements of income	2,391

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

Not Applicable

II. Six months ended September 30, 2013 (from April 1, 2013 to September 30, 2013)

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	32,195	4,622	3,420	5,876	46,113
Intersegment sales and transfer	2,577	41	136	3,632	6,388
Total	34,772	4,663	3,556	9,509	52,502
Segment profit	1,993	265	73	639	2,972

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	2,972
Intersegment eliminations	18
Amortization of goodwill	(27)
Adjustment of inventories	(12)
Other adjustment	(2)
Operating income on the consolidated statements of income	2,947

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

Not Applicable