

Consolidated Financial Report for the March 2014 Term  
<Under Japanese GAAP>

April 30, 2014

**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

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Date of Ordinary General Meeting of Shareholders: June 20, 2014  
Date of commencement of dividend payments: June 23, 2014  
Scheduled submission date for annual securities report: June 23, 2014  
Supplementary explanatory materials for financial results: Available  
Holding of meeting to explain financial results (for analysts and institutional investors): Yes

(In millions of yen, with fractional amounts discarded)

**1. Consolidated operating results for the fiscal year ended March 31, 2014  
(from April 1, 2013 to March 31, 2014)**

(1) Consolidated financial results

(Percentage figures show year-on-year change)

Fiscal year ended	Net sales		Operating income		Ordinary income		Net income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
March 31, 2014	96,773	10.9	6,758	23.9	7,084	30.5	4,295	57.5
March 31, 2013	87,256	8.3	5,452	17.2	5,429	30.2	2,726	39.6

(Note) Comprehensive income: Fiscal year ended March 31, 2014: ¥4,864 million (-%)  
Fiscal year ended March 31, 2013: ¥4,985 million (109.7%)

Fiscal year ended	Net income per share	Net income per share, fully diluted	Return on equity ratio	Ratio of ordinary income to total assets	Ratio of operating income to net sales
	(Yen)	(Yen)	(%)	(%)	(%)
March 31, 2014	141.57	127.73	9.9	8.6	7.0
March 31, 2013	90.56	81.61	7.2	7.1	6.2

(N.B.) Equity in earnings or losses of affiliates: Fiscal year ended March 31, 2014: –  
Fiscal year ended March 31, 2013: –

## (2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	(Millions of yen)	(Millions of yen)	%	(Yen)
March 31, 2014	86,737	46,734	53.7	1,454.90
March 31, 2013	77,521	40,205	51.7	1,330.77

(N.B.) Total equity:

As of March 31, 2014: ¥46,572 million

As of March 31, 2013: ¥40,068 million

## (3) Consolidated cash flows statement

	Net cash provided by (used in) operating activities	Net cash provided by (used in) investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at end of period
Fiscal year ended	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
March 31, 2014	10,589	(4,776)	(1,511)	16,763
March 31, 2013	3,793	(984)	(2,839)	11,992

## 2. Dividends

	Annual dividend per share					Total dividends paid (total)	Dividend payout ratio (consolidated)	Dividend to net assets (consolidated)
	First quarter	Second quarter	Third quarter	Year-end	Total			
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)	(Millions of yen)	%	%
March 31, 2013	–	17.00	–	20.00	37.00	1,114	40.9	2.9
March 31, 2014	–	18.00	–	22.00	40.00	1,246	28.6	2.9
March 31, 2015 (Forecast)	–	20.00	–	22.00	42.00		26.9	

## 3. Consolidated forecasts for the fiscal year ending March 31, 2015 (from April 1, 2014 to March 31, 2015)

(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)
Six months	48,000	4.1	3,600	22.1	3,550	11.3	2,200	16.2	68.73
Annual	100,000	3.3	8,000	18.4	7,900	11.5	5,000	16.4	156.20

## \* Notes

- (1) Changes in significant subsidiaries during the term (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) 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: Yes
  - 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
- (3) Number of issued shares (common shares)
  - 1) Number of issued shares at the end of term (including treasury shares):

As of March 31, 2014:	33,408,272 shares
As of March 31, 2013:	32,001,169 shares
  - 2) Number of treasury shares at the end of term:

As of March 31, 2014:	1,397,813 shares
As of March 31, 2013:	1,891,989 shares
  - 3) Average number of shares during the term

Fiscal year ended March 31, 2014:	30,344,177 shares
Fiscal year ended March 31, 2013:	30,109,635 shares

**\* Indication about carrying-out of the audit procedures**

*This financial report is not subject to the audit procedures based on the Financial Instruments and Exchange Act of Japan. At the time of disclosure of this financial report, the audit procedures for 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 4 of the attached materials to the financial report for the suppositions that form the assumptions for consolidated forecasts and cautions concerning the use thereof.*

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# **1. Analysis of Financial Performance and Financial Position**

## **(1) Analysis of financial performance**

(Financial performance during the fiscal year ended March 31, 2014)

The SATO Group's management objective is to establish sustainable growth capability and revenue base in accordance with its basic strategy to “pursue globalization and maximization of customer value.” To this end, the SATO Group has compiled the necessary measures in the Medium-term Management Plan (from the fiscal year ended March 31, 2013 to the fiscal year ending March 31, 2015), which is being implemented by group-wide efforts.

The above activities led to financial performance surpassing the initially announced forecasts owing not only to sales recovery and improved profitability in business overseas in particular, but also the development of proposal based sales in line with improvements in business sentiment in Japan as well. The SATO Group recorded an increase in net sales, up 10.9% from the previous fiscal year to ¥96,773 million and an increase in operating income, up 23.9% to ¥6,758 million. Ordinary income increased by 30.5% to ¥7,084 million and net income increased by 57.5% to ¥4,295 million, setting new record highs for both sales and profit.

By segment, the SATO Group reported the following:

### <Japan>

During the fiscal year ended March 31, 2014, while there had been limited demand for streamlining operations from non-manufacturing industries such as the transport industry in the first half of the fiscal year, the second half of the fiscal year showed a trend of recovery, even for the manufacturing industries, due to growing consumer spending. In line with these improvements in business sentiment, we actively expanded our sales activities and began to see more pronounced results from development of new applications. Our base business grew steadily thanks to new vigor in inquiries for mechatronic products, mostly electronic printers, and recovering demand for supply products. Moreover, in the fourth quarter, business inquiries related to the change in the consumption tax rate also contributed to financial performance.

As a result of these efforts, net sales rose 5.4% to ¥68,399 million while operating income rose 8.0% to ¥5,114 million, compared to the previous fiscal year. 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.

### <Americas>

In the North American market, orders continued to be received from the transport sector and OEMs for food product management systems. Also, inquiries related to laser printers for the apparel industry increased, contributing to firm sales. In the South American market,

meanwhile, the operating results of Achernar S.A. of Argentina are making a steady contribution to overall performance.

As a result of these efforts, net sales rose 25.9% to ¥9,248 million (a rise of 4.2%, however, excluding foreign currency effects), and operating income rose 24.9% to ¥432 million, compared to the previous fiscal year.

#### <Europe>

In Europe, the SATO Group steadily enhanced production systems and 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 inquiries for mobile solutions for the retail sector in the U.K., business expansion with large apparel and transport companies, and RFID inquiries for a large apparel company in Germany. Furthermore, we realized operating profitability for the second half of the fiscal year for our Spanish operations, after streamlining our business format to a sales function and restarting sales activities in Madrid in July 2013, bringing about operating profitability for the fiscal year ended March 31, 2014 for Europe as a whole. We will continue working to secure further stable profitability through these operations.

As a result of these efforts, net sales rose 30.1% to ¥7,173 million (a rise of 4.6%, however, excluding foreign currency effects), and there was an operating income of ¥124 million, compared with an operating loss of ¥213 million in 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 sales of our new target markets grew according to forecast. Specifically, the Chinese market began to pick up in the second quarter, while Indonesia and Vietnam started contributing more toward sales following the commencement of their operations in the second half of the previous fiscal year.

Our factories in Malaysia and Vietnam that manufacture mechatronic products also contributed to increasing profits in this segment due to not only increased electronic printer demand but also successful cost reductions achieved by improving the entire process from development to manufacturing.

Furthermore, in Australia, we acquired the business of Magellan Technology Pty Ltd, a company recognized for its unique RFID technology, and started operations in December 2013 at SATO Vicinity Pty Ltd, a newly established local subsidiary. Through the acquisition of this technology, which has a proven track record particularly in the healthcare market, the SATO Group is now the only one-stop group that can offer RFID chips and tags, RFID printers, and equipment including RFID readers, as well as traceability and other systems and maintenance services. Looking forward, the SATO Group will step up its sales of RFID

solutions to other markets where we expect future demand, particularly the healthcare market.

As a result of these efforts, net sales rose 25.7% to ¥11,951 million (a rise of 6.6%, however, excluding foreign currency effects), and operating income rose 122.1% to ¥1,256 million, compared to the previous fiscal year.

(Forecasts for the next fiscal year)

Looking at trends in the global economy, there is some concern about the weakening economic growth in the emerging countries and the temporary lull in demand in Japan following the rise in consumption tax. Overall, however, the global economy is expected to experience moderate recovery led by the developed nations, particularly the US. Operating under this environment, the SATO Group is steadily implementing the measures in its Medium-term Management Plan (from the fiscal year ended March 31, 2013 to the fiscal year ending March 31, 2015), with the aim of establishing sustainable growth capability and revenue base following the basic strategy to “pursue globalization and maximization of customer value.” For an overview of this plan, please see “3. Management Policies.”

In light of the above, our consolidated forecasts for the fiscal year ending March 31, 2015, which will be the final year of the Medium-term Management Plan, are as follows.

Net sales	¥100,000 million	(increase by 3.3% year on year)
Operating income	¥8,000 million	(increase by 18.4% year on year)
Ordinary income	¥7,900 million	(increase by 11.5% year on year)
Net income	¥5,000 million	(increase by 16.4% year on year)

The average foreign exchange rates during the period assumed in the above forecast are US\$ = ¥102 and Euro = ¥138.

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 from the consolidated forecasts due to various factors, and in no way does the Company guarantee these forecasts. The Company may later change the information presented here without prior notice.



## (2) Analysis of financial position

### a. Assets, liabilities and net assets

At the end of the fiscal year under review, the balance of current assets was ¥53,647 million, an increase of ¥6,957 million (¥46,690 million recorded at the end of the previous fiscal year). This was primarily the result of increases in cash and deposits of ¥4,984 million, and notes and accounts receivable - trade of ¥1,448 million. The balance of non-current assets was ¥33,089 million (¥30,831 million at the end of the previous fiscal year), an increase of ¥2,258 million. This was primarily the result of increases in property, plant and equipment of ¥1,642 million and intangible assets of ¥1,108 million.

The balance of current liabilities was ¥31,346 million (¥27,405 million at the end of the previous fiscal year), an increase of ¥3,941 million. This was primarily due to an increase of ¥2,319 million in accounts payable - other. The balance of non-current liabilities was ¥8,656 million (¥9,911 million at the end of the previous fiscal year), a decrease of ¥1,255 million. This was mainly the result of an increase of ¥2,159 million in net defined benefit liability as well as decreases of ¥2,785 million in bonds with subscription rights to shares and of ¥1,324 million in provision for retirement benefits.

The balance of net assets at the end of the fiscal year under review was ¥46,734 million (¥40,205 million at the end of the previous fiscal year), an increase of ¥6,529 million. This was primarily due to increases of ¥1,030 million in capital stock, of ¥1,020 million in capital surplus, of ¥2,980 million in retained earnings and of ¥1,082 million in foreign currency translation adjustment, and a decrease of ¥903 million in treasury shares.

### b. Cash flows

At the end of the fiscal year under review, cash and cash equivalents (referred to below as “cash”) stood at ¥16,763 million, an increase of ¥4,771 million compared to the end of the previous fiscal year.

The major cash flow-related factors for the fiscal year ended March 31, 2014 are outlined below.

#### ***Cash flows from operating activities***

Net cash provided by operating activities amounted to ¥10,589 million.

The increase in cash primarily reflected an increase of ¥994 million in notes and accounts receivable - trade, ¥555 million increase in accounts receivable - other, and ¥1,000 million in income taxes paid as well as ¥7,008 million in income before income taxes and minority interests, ¥2,179 million in depreciation, which does not affect cash in or out flow, ¥1,624 million increase in accounts payable - other, and ¥1,035 million in income taxes refund.

#### ***Cash flows from investing activities***

Net cash used in investing activities totaled ¥4,776 million.

This resulted primarily from expenditures of ¥2,494 million for the purchase of property, plant and equipment and ¥1,325 million for purchase of intangible assets.

### ***Cash flows from financing activities***

Net cash used in financing activities was ¥1,511 million. On one hand, there were cash dividends paid of ¥1,143 million and repayments of long-term loans payable of ¥673 million, while on the other, there was proceeds from long-term loans payable of ¥1,002 million.

### ***Trend in cash flow indices***

	March 31, 2011	March 31, 2012	March 31, 2013	March 31, 2014
Equity ratio (%)	52.7	48.3	51.7	53.7
Equity ratio based on market value (%)	50.0	46.9	65.8	88.3
Ratio of cash flow to interest-bearing debt (%)	542.7	311.6	210.1	82.5
Interest-coverage ratio (times)	13.7	35.0	32.9	78.5

(Notes)

The equity ratio is equal to shareholders' equity divided by total assets.

The equity ratio based on market value is equal to total stock market capitalization divided by total assets.

The ratio of cash flow to interest-bearing debt is equal to interest-bearing debts divided by operating cash flow.

The interest-coverage ratio is equal to operating cash flow divided by interest payments.

- \* All of the above indicators are calculated on a consolidated basis.
- \* Total stock market capitalization is calculated by multiplying the closing share price on the final trading day of the fiscal year by the number of issued shares (excluding treasury shares) as of the corresponding fiscal year-end.
- \* Operating cash flow equals total net cash flows provided by operating activities as stated in the consolidated statements of cash flows. Interest-bearing debts include all debts on which interest is paid, as stated in the consolidated balance sheets. Interest payments are equal to interest paid as stated in the consolidated statements of cash flows.

### **(3) Policy regarding the distribution of profits and dividends**

The Company's fundamental policy regarding distribution of profits is to provide four-way returns to our stakeholders: shareholders, employees, society, and the Company. The Company decides the distribution of profits based on the basic principle of ensuring stable and continuous dividends while retaining internal reserves for future business expansion, comprehensively considering business performance and climate.

Based on the above policy, the Company will pay a year-end dividend of ¥22 per share for the fiscal year ended March 31, 2014. Combined with the interim dividend of ¥18 per share that has already been paid, this amounts to total dividends for the fiscal year ended March 31, 2014 of ¥40 per share, an increase of ¥3 per share compared with the previous fiscal year.

We plan to raise this matter for approval at the Ordinary General Meeting of Shareholders to be held in June 2014.

As for total dividends for the fiscal year ending March 31, 2015, we plan to pay ¥42 per share, consisting of an interim dividend of ¥20 and a year-end dividend of ¥22.

#### **(4) Risk factors**

##### **a. Business in Japan**

The SATO Group operates its business by providing customers with optimal solutions for using auto-identification technology media such as barcodes, 2D codes and RFID by integrally combining mechatronic products, supply products, and software technology. Since the SATO Group operates primarily in the supply products business in a broad range of industries including not only distribution and retail, but also manufacturing, transportation, medical, and food processing, the Group is resistant to the effects of economic trends. Nevertheless, in order to accumulate the know-how and create the sales tools to provide the value-added aspect required in a solutions-based business, we must allocate a large portion of operating revenues to selling, general and administrative expenses. A sudden drop in net sales due to broad-reaching and severe downturn in the economy could significantly affect the Group's financial results.

##### **b. Business overseas**

The SATO Group possesses multiple production and sales subsidiaries in various regions including the Americas, Europe, Asia and Oceania. In conducting business in these overseas markets, the Group exposes itself to the following risks.

- (a) Unexpected changes in laws and regulations.
- (b) Occurrence of unexpected political or economic factors.
- (c) Changes to the tax system or tax rate which have adverse effect.
- (d) Social turmoil, etc. caused by terrorist attacks, wars, natural disasters, infectious disease epidemics, or by other factors.

Any of the above events could significantly affect the Group's financial results.

##### **c. Currency fluctuations**

The SATO Group carries out manufacturing and sales on a global scale and conducts transactions between the Company and overseas subsidiaries in multiple foreign currencies. A considerable currency fluctuation could significantly affect the Group's product competitiveness, profitability and other aspects of its financial results.

##### **d. Intellectual property rights**

The SATO Group conducts surveys and negotiations to avoid trouble with respect to intellectual property rights, and it proactively pursues the acquisition of intellectual property rights. At present, there are no cases of the Group breaching the intellectual property rights of a third party. There is a risk, however, that in the future, the Group could be involved in a legal suit. A

situation whereby the Group is disadvantaged by such a legal suit could significantly affect the Group's financial results.

e. Procurement of raw materials, etc.

The SATO Group procures raw materials and parts from numerous external sources. If the Group is unable to obtain these at the planned quantity or price due to any reason and is unable to reduce costs or pass on that extra cost to the price of the finished product, such a situation could significantly affect the Group's financial results.

f. Disposal or loss on valuation of inventories

The SATO Group pays adequate attention to quality, environmental standards and inventory management for its finished products and parts. However, if it becomes necessary to revise the values of finished products and work in process because of sudden changes in market trends, technological innovation, or the product lifecycle, and if inventories are disposed of or loss on valuation is recorded on them, such a situation could significantly affect the Group's financial results.

## **2. Group Organization**

The SATO Group is a corporate group with the Company at the center, being involved primarily in the production and sales of electronic printers, hand labelers and other related mechatronic products, as well as supply products including RFID tags/labels, stickers, labels, tags, tickets, ribbons, and MC-cards.

All fifty-one subsidiaries involved in the Company's business are consolidated subsidiaries and their roles and business segment information are as shown below.

<b>Segment</b>	<b>Companies and Subsidiary Companies</b>	<b>Role</b>
Japan	SATO HOLDINGS CORPORATION	Management strategy development, business administration for the Group and asset leasing, etc.
	SATO CORPORATION	Sales of mechatronic products and supply products
	SATO ADVANCE CORPORATION	Sales of mechatronic products and supply products
	SATO GREEN ENGINEERING CO., LTD.	Development of uses of nano vesicle capsule (CO2 absorbent) technology in non-label applications, and development of ecology business
	SATO RFID SOLUTIONS CO., LTD.	Design, development and sales of RFID related products and solutions utilizing RFID
	IN.OUT CO., LTD.	Development and sales of application software
	SATO SYSTEM SUPPORT CO., LTD.	Maintenance services for electronic printers, etc.
	SATO MATERIAL CO., LTD.	Production and sales of industrial rubber products, synthetic resin and RFID tags/labels
	SATO PRINTING TECHNOLOGY CENTER CO., LTD.	Development and production of base materials, production of supply products
	SANKYO PRINTING CO., LTD.	Production and sales of supply products
	SATO TECHNOLOGY CO., LTD.	Development, design and production of mechatronic products
	SATO PRIMARY LABEL INTERNATIONAL CO., LTD.	Support for overseas sales expansion of supply products, and design and development of value-added products
	SATO LOGISTICS CO., LTD.	Transportation of general and special goods, inspection and assembly of electronic equipment
	SATO OPERATIONS SUPPORT CO., LTD.	Shared services
Americas	SATO INTERNATIONAL AMERICA, INC. (U.S.A.)	Regional administration
	SATO AMERICA, INC. (U.S.A.)	Production and sales of supply products, sales of mechatronic products
	SATO AUTO-ID DO BRASIL LTDA. (Brazil)	
	ACHERNAR S. A. (Argentina)	Sales of supply products and mechatronic products
	SATO ARGENTINA S. A. (Argentina)	
	SATO AUTO-ID DO BRASIL LTDA.	
Europe	SATO INTERNATIONAL EUROPE N. V. (Belgium)	Regional administration
	SATO UK LTD. (U.K.)	Production and sales of supply products, sales of mechatronic products
	SATO FRANCE S. A. S. (France)	
	SATO IBERIA S. A. U. (Spain)	
	SATO BENELUX B. V. (Netherlands)	Sales of supply products and mechatronic products
	SATO POLSKA SP. Z O. O. (Poland)	
	SATO GERMANY GmbH (Germany)	
	SATO LABELLING POLAND SP. Z O. O. (Poland)	
	S. A. R. L. DES BOIS BLANCS (France)	Real estate management
SATO TECHNO LAB EUROPE AB (Sweden)	Development of mechatronic products, support for technology and business development	

<b>Segment</b>	<b>Companies and Subsidiary Companies</b>	<b>Role</b>
Asia and Oceania	SATO INTERNATIONAL ASIA PACIFIC PTE. LTD. (Singapore)	Regional administration
	SATO GLOBAL BUSINESS SERVICES PTE. LTD. (Singapore)	Shared services
	SATO ASIA PACIFIC PTE. LTD. (Singapore)	Production and sales of supply products, sales of mechatronic products
	SATO AUTO-ID (THAILAND) CO., LTD. (Thailand)	
	SATO AUSTRALIA PTY LTD. (Australia)	
	SATO NEW ZEALAND LTD. (New Zealand)	
	PT. SATO NAGATOMI (Indonesia)	Sales of supply products and mechatronic products
	SATO AUTO-ID MALAYSIA SDN. BHD. (Malaysia)	
	SATO SHANGHAI CO., LTD. (China)	
	SATO AUTO-ID INDIA PVT. LTD. (India)	
	SATO VIETNAM SOLUTIONS CO., LTD. (Vietnam)	Production of mechatronic products
	SATO MALAYSIA ELECTRONICS MANUFACTURING SDN. BHD. (Malaysia)	
	SATO VIETNAM CO., LTD. (Vietnam)	
	SATO MALAYSIA SDN. BHD. (Malaysia)	Production of supply products
	SATO PRINT CONNECT HONG KONG LTD. (Hong Kong)	Printing service
	WUXI SONGXING ELECTRONIC COMPONENTS CO., LTD. (China)	Production of supply products and mechatronic products
	ARGOX INFORMATION CO., LTD. (Taiwan)	Production and sales of mechatronic products
SATO VICINITY PTY LTD. (Australia)	Development, production and sales of RFID products and RFID supply products	
SATO HOLDING (THAILAND) CO., LTD. (Thailand)	Holding company	

(Notes)

1. SATO FRANCE S. A. S., SATO POLSKA SP. Z O. O. and SATO LABELLING POLAND SP. Z O. O. are subsidiaries of SATO INTERNATIONAL EUROPE N. V.
2. SATO AUTO-ID MALAYSIA SDN. BHD. is a subsidiary of SATO MALAYSIA SDN. BHD.
3. SATO AUTO-ID (THAILAND) CO., LTD. is a subsidiary of SATO HOLDING (THAILAND) CO., LTD.
4. S. A. R. L. DES BOIS BLANCS is a subsidiary of SATO FRANCE S. A. S.
5. SATO AMERICA, INC. is a subsidiary of SATO INTERNATIONAL AMERICA, INC.
6. SATO AUTO-ID DO BRASIL LTDA., ACHERNAR S. A., SATO ARGENTINA S. A. and SATO PRINT CONNECT HONG KONG LTD. are subsidiaries of SATO AMERICA, INC.
7. SATO AUTO-ID INDIA PVT. LTD. is a subsidiary of SATO INTERNATIONAL ASIA PACIFIC PTE. LTD.
8. Other than the above, there are five subsidiaries of ARGOX INFORMATION CO., LTD.

The SATO Group's main products are as follows.

<b>Business</b>	<b>Main products and services</b>
Mechatronic products	Electronic printers, labeling robots, automatic labelers, one line hand labelers, multiline hand labelers, software, maintenance services
Supply products	Labels/tags for electronic printers, labels for hand labelers, RFID tags/labels, stickers, tickets, ribbons, MC-cards

### **3. Management Policies**

#### **(1) Fundamental policy**

The fundamental management policy of the SATO Group is to promote “Ceaseless Creativity for a Sustainable World” while aspiring to become the world’s most trusted company by providing value to customers not only in terms of the Group’s traditionally upheld goals of “precision, labor savings, and resources savings,” but also in terms of “peace of mind and environmental protection” under the long-term vision of “being the leader in the auto-identification solutions industry worldwide.”

#### **(2) Management indices**

In terms of management indices, the Group places great importance on net sales, the ratio of operating income to net sales and return on equity (ROE). It recognizes these indices as benchmarks for raising shareholder value.

In the Medium-term Management Plan starting with the fiscal year ended March 31, 2013, we have put in place management index targets of consolidated net sales of at least ¥100.0 billion (with an overseas net sales component of at least 30%), consolidated operating income ratio of at least 8%, and return on equity (ROE) of at least 10%, which we aim to achieve by the fiscal year ending March 31, 2015.

The SATO Group will strive to speed up the execution of the plan to achieve these management targets.

#### **(3) Medium- to long-term management strategy and issues requiring action**

In the Medium-term Management Plan (from the fiscal year ended March 31, 2013 to the fiscal year ending March 31, 2015), the SATO Group has put in place the management objective of establishing sustainable growth capability and revenue base, following the basic strategy to “pursue globalization and maximization of customer value.”

In the fiscal year ending March 31, 2015, the final year of the plan, the SATO Group shall seek to realize “globalization” and “maximization of customer value” by changing its existing six measures as follows.

Transforming the business model, organization, and business operations into the “ideal structure” for creating customer value

- ① Build business model (concepts / systems / organizational functions) for the maximization of customer value
- ② Pursue game-changing customer centric innovations and convert them into new businesses
- ③ Realize operational excellence to optimize group management

Focusing on the strategic fields and businesses with high growth and profit potential on a medium- to long-term basis

- ④ Expand overseas business to form pillars of growth strategies
- ⑤ Strengthen efforts for growing business market segments
- ⑥ Expand ecology businesses globally with speed



## 4. Consolidated Financial Statements

### (1) Consolidated balance sheets

Unit: Millions of yen

	March 31, 2013	March 31, 2014
<b>Assets</b>		
Current assets		
Cash and deposits	12,577	17,562
Notes and accounts receivable - trade	20,942	22,390
Securities	93	198
Merchandise and finished goods	6,632	6,852
Work in process	190	226
Raw materials and supplies	1,858	2,199
Accounts receivable - other	884	1,453
Income taxes receivable	1,035	-
Deferred tax assets	1,492	1,625
Other	1,069	1,281
Allowance for doubtful accounts	(86)	(143)
Total current assets	46,690	53,647
Non-current assets		
Property, plant and equipment		
Buildings and structures	11,816	11,843
Accumulated depreciation	(6,401)	(6,693)
Buildings and structures, net	5,414	5,149
Machinery, equipment and vehicles	13,175	14,929
Accumulated depreciation	(8,845)	(9,382)
Machinery, equipment and vehicles, net	4,330	5,547
Tools, furniture and fixtures	5,103	5,713
Accumulated depreciation	(4,096)	(4,556)
Tools, furniture and fixtures, net	1,006	1,157
Land	7,657	8,017
Construction in progress	286	465
Total property, plant and equipment	18,694	20,337
Intangible assets		
Goodwill	4,774	4,058
Software	954	1,141
Leasehold right	187	190
Other	684	2,318
Total intangible assets	6,600	7,708
Investments and other assets		
Investment securities	247	1,308
Long-term loans receivable	363	113
Guarantee deposits	604	599
Deferred tax assets	3,109	1,780
Other	1,647	1,678
Allowance for doubtful accounts	(436)	(436)
Total investments and other assets	5,536	5,043
Total non-current assets	30,831	33,089
Total assets	77,521	86,737

Unit: Millions of yen

	March 31, 2013	March 31, 2014
<b>Liabilities</b>		
<b>Current liabilities</b>		
Notes and accounts payable - trade	5,180	5,698
Short-term loans payable	3,954	4,137
Lease obligations	571	524
Accounts payable - other	13,372	15,691
Income taxes payable	478	947
Provision for bonuses	173	239
Provision for directors' bonuses	19	42
Provision for product warranties	39	41
Other	3,615	4,021
<b>Total current liabilities</b>	<b>27,405</b>	<b>31,346</b>
<b>Non-current liabilities</b>		
Bonds with subscription rights to shares	5,000	2,215
Long-term loans payable	1,041	1,041
Lease obligations	2,042	2,889
Provision for retirement benefits	1,324	–
Net defined benefit liability	–	2,159
Other	502	351
<b>Total non-current liabilities</b>	<b>9,911</b>	<b>8,656</b>
<b>Total liabilities</b>	<b>37,316</b>	<b>40,002</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Capital stock	6,331	7,361
Capital surplus	5,799	6,819
Retained earnings	30,577	33,557
Treasury shares	(3,460)	(2,556)
<b>Total shareholders' equity</b>	<b>39,247</b>	<b>45,181</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	0	38
Foreign currency translation adjustment	820	1,902
Remeasurements of defined benefit plans	–	(550)
<b>Total accumulated other comprehensive income</b>	<b>821</b>	<b>1,390</b>
Subscription rights to shares	–	25
Minority interests	136	136
<b>Total net assets</b>	<b>40,205</b>	<b>46,734</b>
<b>Total liabilities and net assets</b>	<b>77,521</b>	<b>86,737</b>

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

Unit: Millions of yen

	Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2014
Net sales	87,256	96,773
Cost of sales	50,845	55,593
Gross profit	36,410	41,180
Selling, general and administrative expenses	30,958	34,421
Operating income	5,452	6,758
Non-operating income		
Interest income	53	63
Dividend income	0	7
Purchase discounts	10	20
Rent income	146	158
Foreign exchange gains	–	183
Other	100	246
Total non-operating income	311	679
Non-operating expenses		
Interest expenses	112	136
Foreign exchange losses	19	–
Sales discounts	31	49
Other	170	168
Total non-operating expenses	334	353
Ordinary income	5,429	7,084
Extraordinary income		
Gain on sales of non-current assets	6	51
Gain on sales of investment securities	0	–
Total extraordinary income	6	51
Extraordinary losses		
Restructuring loss	233	–
Loss on sales of non-current assets	3	29
Loss on retirement of non-current assets	78	68
Loss on disposition of foreign currency translation adjustment	138	28
Total extraordinary losses	454	126
Income before income taxes and minority interests	4,982	7,008
Income taxes - current	884	1,428
Income taxes - deferred	1,364	1,276
Total income taxes	2,248	2,704
Income before minority interests	2,733	4,304
Minority interests in income	6	8
Net income	2,726	4,295

**(Consolidated statements of comprehensive income)**

Unit: Millions of yen

	Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2014
Income before minority interests	2,733	4,304
Other comprehensive income		
Valuation difference on available-for-sale securities	1	37
Foreign currency translation adjustment	2,250	1,073
Remeasurements of defined benefit plans, net of tax	–	(550)
Total other comprehensive income	2,252	560
Comprehensive income	4,985	4,864
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	4,960	4,865
Comprehensive income attributable to minority interests	25	(0)

### (3) Consolidated statements of changes in equity

Fiscal year ended March 31, 2013

Unit: Millions of yen

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	6,331	5,799	28,904	(3,459)	37,575
Changes of items during period					
Dividends of surplus			(1,053)		(1,053)
Net income			2,726		2,726
Purchase of treasury shares				(0)	(0)
Net changes of items other than shareholders' equity					
Total changes of items during period	–	–	1,672	(0)	1,671
Balance at end of current period	6,331	5,799	30,577	(3,460)	39,247

	Accumulated other comprehensive income			Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of current period	(0)	(1,412)	(1,412)	10	36,172
Changes of items during period					
Dividends of surplus					(1,053)
Net income					2,726
Purchase of treasury shares					(0)
Net changes of items other than shareholders' equity	1	2,232	2,233	126	2,360
Total changes of items during period	1	2,232	2,233	126	4,032
Balance at end of current period	0	820	821	136	40,205

Fiscal year ended March 31, 2014

Unit: Millions of yen

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	6,331	5,799	30,577	(3,460)	39,247
Changes of items during period					
Issuance of new shares - exercise of subscription rights to shares	1,030	1,030			2,060
Dividends of surplus			(1,144)		(1,144)
Net income			4,295		4,295
Purchase of treasury shares				(3)	(3)
Disposal of treasury shares		(9)	(171)	907	726
Net changes of items other than shareholders' equity					
Total changes of items during period	1,030	1,020	2,980	903	5,934
Balance at end of current period	7,361	6,819	33,557	(2,556)	45,181

	Accumulated other comprehensive income				Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	0	820	–	821	–	136	40,205
Changes of items during period							
Issuance of new shares - exercise of subscription rights to shares							2,060
Dividends of surplus							(1,144)
Net income							4,295
Purchase of treasury shares							(3)
Disposal of treasury shares							726
Net changes of items other than shareholders' equity	37	1,082	(550)	569	25	(0)	594
Total changes of items during period	37	1,082	(550)	569	25	(0)	6,529
Balance at end of current period	38	1,902	(550)	1,390	25	136	46,734

#### (4) Consolidated statements of cash flows

Unit: Millions of yen

	Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2014
Cash flows from operating activities		
Income before income taxes and minority interests	4,982	7,008
Depreciation	1,941	2,179
Amortization of goodwill	819	933
Loss (gain) on sales of investment securities	(0)	–
Loss (gain) on sales of non-current assets	(2)	(21)
Loss on retirement of non-current assets	78	68
Loss on business restructuring	233	–
Loss on disposition of foreign currency translation adjustment	138	28
Increase (decrease) in allowance for doubtful accounts	71	43
Increase (decrease) in provision for bonuses	(13)	51
Increase (decrease) in provision for retirement benefits	30	(1,378)
Increase (decrease) in net defined benefit liability	–	1,569
Increase (decrease) in provision for directors' bonuses	(31)	23
Interest and dividend income	(54)	(70)
Interest expenses	112	136
Foreign exchange losses (gains)	203	(495)
Decrease (increase) in notes and accounts receivable - trade	(901)	(994)
Decrease (increase) in inventories	390	56
Decrease (increase) in accounts receivable - other	(509)	(555)
Increase (decrease) in notes and accounts payable - trade	173	380
Increase (decrease) in accounts payable - other	313	1,624
Other, net	(540)	68
Subtotal	7,437	10,656
Interest and dividend income received	50	63
Interest expenses paid	(112)	(134)
Payments for business restructuring	(13)	(30)
Income taxes paid	(3,568)	(1,000)
Income taxes refund	–	1,035
Net cash provided by (used in) operating activities	3,793	10,589

Unit: Millions of yen

	Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2014
Cash flows from investing activities		
Payments into time deposits	(509)	(1,173)
Proceeds from withdrawal of time deposits	1,286	902
Purchase of investment securities	(17)	(977)
Purchase of property, plant and equipment	(1,023)	(2,494)
Proceeds from sales of property, plant and equipment	52	708
Purchase of intangible assets	(618)	(1,325)
Payments for transfer of business	(314)	(589)
Other, net	160	173
Net cash provided by (used in) investing activities	(984)	(4,776)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(5,937)	(193)
Proceeds from long-term loans payable	–	1,002
Repayments of long-term loans payable	(676)	(673)
Proceeds from issuance of bonds	5,000	–
Purchase of treasury shares	(0)	(3)
Repayments of lease obligations	(273)	(501)
Cash dividends paid	(1,053)	(1,143)
Other, net	101	1
Net cash provided by (used in) financing activities	(2,839)	(1,511)
Effect of exchange rate change on cash and cash equivalents	644	470
Net increase (decrease) in cash and cash equivalents	614	4,771
Cash and cash equivalents at beginning of period	11,377	11,992
Cash and cash equivalents at end of period	11,992	16,763



## **(5) Notes to consolidated financial statements**

### **[Segment information]**

#### 1. Overview of reportable segments

The reportable segments of SATO HOLDINGS CORPORATION are constituent units of the Company whose separate financial information is obtainable. These segments are periodically examined by the Board of Directors with the purposes of deciding the allocation of management resources and evaluating operating results.

By freely using auto-identification technology both inside Japan and overseas, the SATO Group has continued to develop its unique business model of “DCS & Labeling.” It has adapted this model to meet the specific characteristics of each region, and is conducting the manufacturing and sales of mechatronic and supply products, as well as providing software and maintenance services to its users.

Under the current organizational system, the Company, situated in Japan, leads and manages all regions through providing management guidance together with strategies for production and sales to each local subsidiary company, including the overseas subsidiaries grouped under our regional headquarters in the Americas, Europe, Asia and Oceania.

Accordingly, the Company makes its reportable segments the following four geographic regions: Japan, Americas (mainly U.S.A.), Europe (mainly U.K. and Germany), and Asia and Oceania (mainly Singapore and Malaysia). Each of these segments forms a regional base with a separate production and sales system.

#### 2. Computation method for net sales, profit or loss, assets, liabilities, and other item amounts by reportable segment

The method of accounting by reportable segment is roughly the same as the method of accounting used for the preparation of consolidated financial statements.

The income stated in the reportable segments is a figure based on operating income.

3. Information on net sales, profit or loss, assets, liabilities and other item amounts by reportable segment

Fiscal year ended March 31, 2013 (from April 1, 2012 to March 31, 2013)

Unit: Millions of yen

	Japan	Americas	Europe	Asia and Oceania	Total
Net sales					
External customer sales	64,883	7,348	5,515	9,508	87,256
Intersegment sales and transfer	4,186	26	232	5,286	9,732
Total	69,070	7,374	5,748	14,794	96,988
Segment profit (loss)	4,737	346	(213)	565	5,435
Segment assets	72,407	5,312	3,664	16,831	98,216
Other items					
Depreciation	1,353	120	100	367	1,941
Amount of increases in property, plant and equipment and intangible assets	2,008	349	296	479	3,134

Fiscal year ended March 31, 2014 (from April 1, 2013 to March 31, 2014)

Unit: Millions of yen

	Japan	Americas	Europe	Asia and Oceania	Total
Net sales					
External customer sales	68,399	9,248	7,173	11,951	96,773
Intersegment sales and transfer	5,432	84	291	7,434	13,242
Total	73,831	9,333	7,465	19,386	110,016
Segment profit (loss)	5,114	432	124	1,256	6,927
Segment assets	79,214	6,034	5,285	18,867	109,402
Other items					
Depreciation	1,392	199	129	457	2,179
Amount of increases in property, plant and equipment and intangible assets	3,991	362	700	1,052	6,106

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

Unit: Millions of yen

Profit	Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2014
Reportable segments total	5,435	6,927
Intersegment eliminations	9	21
Amortization of goodwill	(46)	(56)
Adjustment of inventories	56	(131)
Other adjustment	(2)	(2)
Operating income on the consolidated statements of income	5,452	6,758

Unit: Millions of yen

Assets	March 31, 2013	March 31, 2014
Reportable segments total	98,216	109,402
Intersegment eliminations	(20,344)	(22,468)
Other adjustment	(349)	(196)
Total assets on the consolidated balance sheets	77,521	86,737

Unit: Millions of yen

Other Items	Reportable segments total		Adjustment		The amount recorded on the consolidated financial statements	
	Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2014
Depreciation	1,941	2,179	-	-	1,941	2,179
Amount of increases in property, plant and equipment and intangible assets	3,144	6,106	-	-	3,144	6,106

**[Pertinent information]**

Fiscal year ended March 31, 2013 (from April 1, 2012 to March 31, 2013)

## 1. Information by product or service

Unit: Millions of yen			
	Mechatronic products	Supply products	Total
External customer sales	34,741	52,515	87,256

## 2. Information by region

## 1) Net sales

This information has been omitted, as classification is the same as for reportable segments.

## 2) Property, plant and equipment

Unit: Millions of yen					
	Japan	Americas	Europe	Asia and Oceania	Total
	15,708	607	632	1,745	18,694

## 3. Information by major customers

Disclosure of this item is omitted because out of the customers included in external customer sales, there are no customers that make up 10% or more of the net sales of the consolidated statements of income.

Fiscal year ended March 31, 2014 (from April 1, 2013 to March 31, 2014)

## 1. Information by product or service

Unit: Millions of yen			
	Mechatronic products	Supply products	Total
External customer sales	39,222	57,551	96,773

## 2. Information by region

## 1) Net sales

This information has been omitted, as classification is the same as for reportable segments.

## 2) Property, plant and equipment

Unit: Millions of yen					
	Japan	Americas	Europe	Asia and Oceania	Total
	16,094	843	1,335	2,064	20,337

### 3. Information by major customers

Disclosure of this item is omitted because out of the customers included in external customer sales, there are no customers that make up 10% or more of the net sales of the consolidated statements of income.

#### **[Information on impairment loss of non-current assets by reportable segment]**

Not Applicable

#### **[Information on amortization of goodwill and remaining goodwill balance by reportable segment]**

Fiscal year ended March 31, 2013 (from April 1, 2012 to March 31, 2013)

Unit: Millions of yen

	Japan	Americas	Europe	Asia and Oceania	Eliminations and corporate	Total
Amount of amortization	54	87	-	631	46	819
Balance at the end of period	125	389	-	4,082	175	4,774

(Note)

Goodwill of the SATO Group cannot be attributable to reportable segments. Goodwill consists of the goodwill recognized when the Company received the transfer of the barcode related business.

Fiscal year ended March 31, 2014 (from April 1, 2013 to March 31, 2014)

Unit: Millions of yen

	Japan	Americas	Europe	Asia and Oceania	Eliminations and corporate	Total
Amount of amortization	54	62	-	759	56	933
Balance at the end of period	71	255	-	3,592	137	4,058

(Note)

Goodwill of the SATO Group cannot be attributable to reportable segments. Goodwill consists of the goodwill recognized when the Company received the transfer of the barcode related business.

#### **[Information on gain on negative goodwill by reportable segment]**

Not Applicable