

Consolidated Financial Report
for the First Six Months of the March 2015 Term
<Under Japanese GAAP>

October 24, 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
 Please address all communications to: Akihiro Kushida, Vice President and Chief
 Financial Officer (CFO), Director
 Phone: 03-5745-3414
 Scheduled submission date for quarterly securities report: November 7, 2014
 Date of commencement of dividend payments: December 5, 2014
 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, 2015 (from April 1, 2014 to September 30, 2014)**

(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, 2014	47,566	3.1	3,018	2.4	3,171	(0.6)
September 30, 2013	46,113	8.1	2,947	23.3	3,189	75.3

(Note) Comprehensive income: Six months ended September 30, 2014: ¥2,920 million (28.4%)
 Six months ended September 30, 2013: ¥2,274 million (-%)

Six months ended	Net income		Net income per share	Net income per share, fully diluted
	(Millions of yen)	%	(Yen)	(Yen)
September 30, 2014	1,776	(6.2)	54.56	52.68
September 30, 2013	1,893	159.7	62.90	56.48

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
As of September 30, 2014	86,359	50,975	58.9	1,521.46
March 31, 2014	86,737	46,734	53.7	1,454.90

(N.B.) Total equity:

As of September 30, 2014: ¥50,897 million

As of March 31, 2014: ¥46,572 million

2. Dividends

	Annual dividend per share				
	First quarter	Second quarter	Third quarter	Year-end	Total
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)
March 31, 2014	–	18.00	–	22.00	40.00
March 31, 2015	–	20.00			
March 31, 2015 (Forecast)			–	22.00	42.00

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

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)
Annual	100,000	3.3	8,000	18.4	7,900	11.5	5,000	16.4	153.55

(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: 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

For details, please refer to the section of “(2) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections” of “2. Matters Regarding Summary Information (Notes)” on page 5 of the attached materials.

(4) Number of issued shares (common shares)

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

As of September 30, 2014:	34,849,523 shares
As of March 31, 2014:	33,408,272 shares

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

As of September 30, 2014:	1,396,276 shares
As of March 31, 2014:	1,397,813 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, 2014:	32,562,112 shares
Six months ended September 30, 2013:	30,108,952 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 and profit in accordance with its basic strategy to "pursue globalization and maximization of customer value." To this end, the SATO Group has compiled the necessary business directions 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.

Despite our efforts in pursuing these business directions in the first six months of this fiscal year, the final year of the Medium-term Management Plan, the SATO Group's operating results fell short of the initially planned targets in Japan, reflecting the lull after the rush in demand related to the consumption tax hike and the weakening economic activity due to a trend of economic slowdown. Overseas, on the other hand, existing businesses stayed on track to achieve the planned targets.

Owing to the above, for the first six months, the SATO Group recorded an increase in net sales, up 3.1% from the same period of the previous fiscal year to ¥47,566 million and an increase in operating income, up 2.4% to ¥3,018 million. Ordinary income decreased by 0.6% to ¥3,171 million and net income decreased by 6.2% to ¥1,776 million.

By segment, the SATO Group reported the following:

<Japan>

In the Japanese market, sales rose year-on-year for mechatronic products as a result of sales activities that accurately targeted demand for streamlining operations, particularly in the manufacturing industry. For supply products, however, sales were lower year-on-year reflecting stagnation in demand, particularly in the retail sector, on account of the lull after the rush in demand related to the consumption tax hike and the weakening economic activity due to a trend of economic slowdown. Overall, both net sales and operating income increased marginally.

We are seeing results steadily from business negotiations for new large-scale orders which include the securing of large-scale mobile printer orders for major logistics companies and public sector projects. In the first six months, the SATO Group also commenced sales of a wearable voice picking system for the logistics industry and a GHS-compliant label printer which have already won orders from some customers and received multiple sales leads for which business negotiations are in progress.

Under these circumstances, net sales rose 0.2% to ¥32,271 million and operating income rose 0.2% to ¥1,997 million, compared to the same period of the previous fiscal year.

<Americas>

In the North American market, with the addition of our new universal CL4NX series

industrial barcode printer to the product lineup, sales volume of industrial 4-inch printers increased by around 40% compared to the same period of the previous fiscal year. Additional orders were received from OEMs for food product management systems, and orders for laser printers from apparel companies and pharmacies increased as well. These factors lifted operating results in the Americas overall.

In the South American market, meanwhile, amid the lull in the regional economy, our business moved along as projected, largely driven by the strong performance of Achernar S.A. of Argentina. The depreciation of South American currencies however, resulted in year-on-year decrease for both net sales and operating income in the region.

Under these circumstances, net sales rose 7.9% to ¥4,987 million (a rise of 3.5%, however, excluding foreign currency effects), and operating income rose 45.0% to ¥384 million, compared to the same period of the previous fiscal year.

<Europe>

In the European market, the SATO Group has been maintaining its operating profitability since the second half of the previous fiscal year by steadily enhancing and strengthening production structures and developing new sales channels in each country for our sticker and label products while implementing sales strategies aimed at improving profitability. In the U.K., we expanded the scale of our businesses with retailers, apparel companies and large logistics providers. In Germany, we received large-scale orders of mobile printers for the apparel industry. Thanks to the strong performance of the aforementioned two countries and profit contributions from our Spanish operations which got back to operating profitability from the second half of the previous fiscal year, operating income grew significantly in Europe overall.

Under these circumstances, net sales rose 10.9% to ¥3,794 million (a rise of 1.9%, however, excluding foreign currency effects), and operating income rose 203.1% to ¥224 million, compared to the same period of the previous fiscal year.

<Asia and Oceania>

Despite a trend of sluggish economic growth in the region's emerging markets, we remain optimistic about the huge business potential of Asia and Oceania, an important geographical segment which accounts for the highest share of overseas operating income compared to the Americas and Europe. Besides the Chinese market where our business stayed robust, sales subsidiaries in Malaysia, Indonesia, Vietnam, India and Australia all recorded double-digit sales growth year-on-year on a local currency basis. Even Thailand achieved increased revenues and profits, despite the country's prolonged political unrest.

Operating income for the region declined year-on-year, largely influenced by the up-front investments made for SATO Vicinity of Australia which commenced operations in December 2013. SATO Vicinity offers healthcare solutions that utilize PJM, a unique RFID technology, and this same technology was recently integrated into Fantasy, the world's largest ERP system for diamonds by Rubinstein Software. The SATO Group will continue to introduce

PJM-based solutions for markets other than healthcare to target further business growth. Under these circumstances, net sales rose 10.8% to ¥6,513 million (a rise of 7.8%, however, excluding foreign currency effects), while operating income dropped 18.9% to ¥518 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 ¥86,359 million, a decrease of ¥377 million compared to the end of the previous fiscal year. This was primarily the result of a decrease in notes and accounts receivable - trade, notwithstanding increases in inventories and intangible assets.

Net assets were ¥50,975 million, a ¥4,240 million increase from the end of the previous fiscal year, mainly due to the increases in capital stock and capital surplus as a result of conversion of convertible bonds with subscription rights to shares and the 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 ¥16,434 million, a decrease of ¥329 million compared to the end of the previous fiscal year.

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥3,018 million, a decrease of 49.2% compared to the same period of the previous fiscal year.

The increase in cash reflected principally ¥3,167 million in income before income taxes and minority interests, ¥1,183 million in depreciation and a ¥2,010 million decrease in notes and accounts receivable - trade. Contributing to a decrease in cash were a ¥751 million increase in inventories, a ¥1,814 million decrease in accounts payable - other and ¥1,076 million in income taxes paid.

Cash flows from investing activities

Net cash used in investing activities totaled ¥2,539 million, an increase of 2.3% compared to the same period of the previous fiscal year.

This resulted primarily from expenditures of ¥810 million for the purchase of property, plant and equipment and ¥2,078 million for the purchase of intangible assets.

Cash flows from financing activities

Net cash used in financing activities was ¥1,055 million, an increase of 77.7% compared to the same period of the previous fiscal year.

This resulted primarily from an expenditure of ¥704 million in cash dividends paid.

(3) Explanation of consolidated forecasts and other projections

Regarding the consolidated forecasts for the fiscal year ending March 31, 2015, no changes have been made to the forecasts that were announced on April 30, 2014.

2. Matters Regarding Summary Information (Notes)

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

Not Applicable

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

Changes in accounting policies

Application of the Accounting Standard for Retirement Benefits, etc.

Effective from the first quarter ended June 30, 2014, the Company has applied the provisions of the main clauses of Paragraph 35 from the “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26, May 17, 2012; hereinafter, the “Accounting Standard”) and Paragraph 67 from the “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, May 17, 2012; hereinafter, the “Guidance”), and reviewed its calculation method for retirement benefit obligations and current service costs, changing from the straight-line basis to the benefit formula basis for its method of attributing expected benefit to periods. In addition, the Company has changed the calculation method for the discount rate.

In line with the transitional measures provided in Paragraph 37 of the Accounting Standard, the Company has not applied the aforesaid provisions to the consolidated financial statements for the past periods retrospectively.

This change has no impact on consolidated financial statements for the first six months.

3. Consolidated Financial Statements

(1) Consolidated balance sheets

Unit: Millions of yen

	March 31, 2014	September 30, 2014
Assets		
Current assets		
Cash and deposits	17,562	16,819
Notes and accounts receivable - trade	22,390	20,557
Securities	198	220
Merchandise and finished goods	6,852	7,529
Work in process	226	300
Raw materials and supplies	2,199	2,488
Other	4,360	3,803
Allowance for doubtful accounts	(143)	(130)
Total current assets	53,647	51,590
Non-current assets		
Property, plant and equipment		
Land	8,017	8,138
Other, net	12,320	12,609
Total property, plant and equipment	20,337	20,747
Intangible assets		
Goodwill	4,058	3,892
Other	3,650	5,178
Total intangible assets	7,708	9,071
Investments and other assets	5,043	4,949
Total non-current assets	33,089	34,768
Total assets	86,737	86,359
Liabilities		
Current liabilities		
Notes and accounts payable - trade	5,698	5,231
Short-term loans payable	4,137	4,071
Accounts payable - other	15,691	13,668
Income taxes payable	947	727
Provision	324	380
Other	4,546	4,882
Total current liabilities	31,346	28,963
Non-current liabilities		
Bonds with subscription rights to shares	2,215	105
Long-term loans payable	1,041	1,037
Net defined benefit liability	2,159	2,038
Other	3,240	3,240
Total non-current liabilities	8,656	6,420
Total liabilities	40,002	35,384

Unit: Millions of yen

	March 31, 2014	September 30, 2014
Net assets		
Shareholders' equity		
Capital stock	7,361	8,416
Capital surplus	6,819	7,874
Retained earnings	33,557	34,629
Treasury shares	(2,556)	(2,554)
Total shareholders' equity	45,181	48,365
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	38	80
Foreign currency translation adjustment	1,902	2,979
Remeasurements of defined benefit plans	(550)	(527)
Total accumulated other comprehensive income	1,390	2,532
Subscription rights to shares	25	56
Minority interests	136	20
Total net assets	46,734	50,975
Total liabilities and net assets	86,737	86,359

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

Unit: Millions of yen

	Six months ended September 30, 2013	Six months ended September 30, 2014
Net sales	46,113	47,566
Cost of sales	26,633	26,983
Gross profit	19,480	20,582
Selling, general and administrative expenses	16,533	17,564
Operating income	2,947	3,018
Non-operating income		
Interest income	28	35
Dividend income	0	0
Foreign exchange gains	188	69
Rent income	77	63
Other	104	173
Total non-operating income	399	343
Non-operating expenses		
Interest expenses	62	73
Sales discounts	27	32
Other	66	84
Total non-operating expenses	157	190
Ordinary income	3,189	3,171
Extraordinary income		
Gain on sales of non-current assets	23	5
Total extraordinary income	23	5
Extraordinary losses		
Loss on retirement of non-current assets	2	4
Loss on sales of non-current assets	28	5
Total extraordinary losses	30	9
Income before income taxes and minority interests	3,182	3,167
Income taxes - current	743	899
Income taxes - deferred	541	489
Total income taxes	1,285	1,388
Income before minority interests	1,897	1,778
Minority interests in income	3	1
Net income	1,893	1,776

(Consolidated statements of comprehensive income)

Unit: Millions of yen

	Six months ended September 30, 2013	Six months ended September 30, 2014
Income before minority interests	1,897	1,778
Other comprehensive income		
Valuation difference on available-for-sale securities	3	42
Foreign currency translation adjustment	373	1,077
Remeasurements of defined benefit plans, net of tax	–	22
Total other comprehensive income	377	1,142
Comprehensive income	2,274	2,920
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,288	2,918
Comprehensive income attributable to minority interests	(13)	2

(3) Consolidated statements of cash flows

Unit: Millions of yen

	Six months ended September 30, 2013	Six months ended September 30, 2014
Cash flows from operating activities		
Income before income taxes and minority interests	3,182	3,167
Depreciation	1,022	1,183
Amortization of goodwill	490	497
Loss (gain) on sales of non-current assets	5	(0)
Loss on retirement of non-current assets	2	4
Increase (decrease) in provision	75	34
Increase (decrease) in allowance for doubtful accounts	(10)	(21)
Increase (decrease) in provision for retirement benefits	7	–
Increase (decrease) in net defined benefit liability	–	(94)
Interest and dividend income	(28)	(36)
Interest expenses	62	73
Foreign exchange losses (gains)	(258)	(67)
Decrease (increase) in notes and accounts receivable - trade	1,477	2,010
Decrease (increase) in inventories	45	(751)
Increase (decrease) in notes and accounts payable - trade	(323)	(544)
Increase (decrease) in accounts payable - other	(383)	(1,814)
Other, net	150	494
Subtotal	5,518	4,134
Interest and dividend income received	24	33
Interest expenses paid	(56)	(73)
Payments for business restructuring	(23)	–
Income taxes paid	(562)	(1,076)
Income taxes refund	1,035	–
Net cash provided by (used in) operating activities	5,935	3,018
Cash flows from investing activities		
Payments into time deposits	(491)	(226)
Proceeds from withdrawal of time deposits	421	686
Purchase of investment securities	(977)	–
Purchase of shares of subsidiaries	–	(233)
Purchase of property, plant and equipment	(1,086)	(810)
Proceeds from sales of property, plant and equipment	114	17
Purchase of intangible assets	(574)	(2,078)
Other, net	111	105
Net cash provided by (used in) investing activities	(2,482)	(2,539)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(72)	(68)
Proceeds from long-term loans payable	1,000	–
Repayments of long-term loans payable	(669)	(5)
Repayments of lease obligations	(249)	(290)
Cash dividends paid	(601)	(704)
Other, net	(0)	13
Net cash provided by (used in) financing activities	(593)	(1,055)
Effect of exchange rate change on cash and cash equivalents	142	246
Net increase (decrease) in cash and cash equivalents	3,001	(329)
Cash and cash equivalents at beginning of period	11,992	16,763
Cash and cash equivalents at end of period	14,993	16,434

(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, 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 non-current assets, goodwill and negative goodwill, etc. by reportable segment

Not Applicable

II. Six months ended September 30, 2014 (from April 1, 2014 to September 30, 2014)

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	32,271	4,987	3,794	6,513	47,566
Intersegment sales and transfer	2,951	78	160	4,127	7,317
Total	35,223	5,065	3,954	10,640	54,883
Segment profit	1,997	384	224	518	3,124

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	3,124
Intersegment eliminations	2
Amortization of goodwill	(30)
Adjustment of inventories	(78)
Other adjustment	(0)
Operating income on the consolidated statements of income	3,018

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

Not Applicable