

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

February 5, 2015

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: February 13, 2015
Date of commencement of dividend payments: -
Supplementary explanatory materials for quarterly results: Available
Holding of meeting to explain quarterly results (for analysts and institutional investors): None

(In millions of yen, with fractional amounts discarded)

**1. Consolidated operating results for the first nine months of the fiscal year ending
March 31, 2015 (from April 1, 2014 to December 31, 2014)**

(1) Consolidated financial results (cumulative)

(Percentage figures show year-on-year change)

Nine months ended	Net sales		Operating income		Ordinary income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
December 31, 2014	72,934	3.2	4,929	2.6	5,191	0.3
December 31, 2013	70,702	8.8	4,803	26.9	5,173	45.9

(Note) Comprehensive income: Nine months ended December 31, 2014: ¥5,899 million (21.5%)
Nine months ended December 31, 2013: ¥4,856 million (81.3%)

Nine months ended	Net income		Net income per share	Net income per share, fully diluted
	(Millions of yen)	%	(Yen)	(Yen)
December 31, 2014	3,134	(4.6)	95.36	93.02
December 31, 2013	3,286	105.7	109.17	98.01

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	(Millions of yen)	(Millions of yen)	%	(Yen)
December 31, 2014	94,981	53,565	56.1	1,590.30
March 31, 2014	86,737	46,734	53.7	1,454.90

(N.B.) Total equity:

As of December 31, 2014: ¥53,248 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	152.11

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

*** Notes**

- (1) Changes in significant subsidiaries during the first nine 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 6 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 December 31, 2014:	34,880,259 shares
As of March 31, 2014:	33,408,272 shares

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

As of December 31, 2014:	1,396,727 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 nine months):

Nine months ended December 31, 2014:	32,870,436 shares
Nine months ended December 31, 2013:	30,108,814 shares

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

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

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

Forward-looking statements, including the consolidated forecasts stated in these materials, are based on information currently available to the Company and certain assumptions deemed reasonable. 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 Nine 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 efforts in pursuing these business directions in the first nine months of this fiscal year, the final year of the Medium-term Management Plan, the SATO Group's operating results in Japan fell short of the initially planned targets, owing to the continued lull after the rush in demand related to the consumption tax hike in April, as well as a weakening of consumer activity. Overseas, on the other hand, existing businesses stayed on track to achieve the planned targets. As a result, for the first nine months, the SATO Group recorded an increase in net sales, up 3.2% from the same period of the previous fiscal year to ¥72,934 million and an increase in operating income, up 2.6% to ¥4,929 million. Ordinary income increased by 0.3% to ¥5,191 million and net income decreased by 4.6% to ¥3,134 million.

By segment, the SATO Group reported the following:

<Japan>

In the Japanese market, sales rose year-on-year for mechatronics products as a result of sales activities that accurately targeted demand for streamlining operations, particularly in the manufacturing industry. We are on track to meet targets concerning new large-scale business deals as we receive and deliver sizable mobile printer orders for major logistics companies and public sector projects. For supply products, however, sales were lower on a year-on-year basis 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 weaker consumer activity. While this caused overall net sales in Japan to fall short compared to the same period of the previous fiscal year, improvements in gross profits contributed towards an increase in operating income from the same period of the previous fiscal year.

In the first nine months, the SATO Group also commenced sales of a wearable voice picking system for the logistics industry, a food production management system, and a GHS-compliant label printer. These new products have generated active sales leads, some of which resulting in successful deals and sales, while others are currently undergoing business negotiations.

Under these circumstances, net sales dropped 0.5% to ¥49,236 million and operating income rose 4.1% to ¥3,483 million, compared to the same period of the previous fiscal year.

<Americas>

In the North American market, overall performance was boosted by the strong economy. In addition to significant growth in sales volume of industrial 4-inch printers, primarily for the barcode printer CL4NX series, a strategic product launched overseas from this fiscal year, there were additional sales for OEM food product management systems and increased sales for laser printers to apparel companies and pharmacies.

In the South American market, amid economic stagnation due to the external debt crisis in Argentina, one of our key markets, business moved along as projected, largely driven by the strong performance of Achernar S.A. of Argentina. The resultant sales growth in terms of Japanese yen was less pronounced however, due to depreciation of the local currency.

Under these circumstances, net sales rose 13.9% to ¥7,885 million (a rise of 6.1%, however, excluding foreign currency effects), and operating income rose 36.1% to ¥512 million, compared to the same period of the previous fiscal year.

<Europe>

In the European market, the SATO Group has been steadily enhancing and strengthening production structures and developing new sales channels in each country for its sticker and label products while implementing sales strategies aimed at improving profitability. This effort resulted in our acquiring of large-lot customers from well-established companies despite the economic recession, and recording of consistent operating profitability since the second half of the previous fiscal year. In the U.K., we expanded the scale of our businesses with retailers, apparel companies and large logistics providers, while in Germany, we sold a large-scale order of mobile printers to a major apparel company and are steadily progressing with business negotiations for the new printer CL4NX.

In addition, in December 2014, the SATO Group acquired 75% of all shares issued by Okil-Holding, JSC (“Okil”), the largest label manufacturer in Russia, making it a consolidated subsidiary. The SATO Group sees this as an opportunity not just for the manufacturing and sales of product labels which Okil specializes in, but also for establishing a foothold to gain full-scale entry into Russia’s auto-identification solutions industry.

Under these circumstances, net sales rose 9.2% to ¥5,768 million (a rise of 1.1%, however, excluding foreign currency effects), and operating income rose 128.9% to ¥352 million, compared to the same period of the previous fiscal year.

<Asia and Oceania>

Despite a trend of sluggish economic growth in the Asian 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. In particular, China and Thailand have achieved strong growth in sales through business from the manufacturing and transportation sectors, while sales subsidiaries in

Malaysia, Singapore, Indonesia, Vietnam and India all recorded double-digit year-on-year sales growth on a local currency basis.

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. With multiple ongoing business negotiations involving users in particularly the healthcare sector and diamond industry for solutions related to PJM, SATO Vicinity's original RFID technology, we aim to target further business growth in the future.

Under these circumstances, net sales rose 11.5% to ¥10,043 million (a rise of 6.2%, however, excluding foreign currency effects), while operating income dropped 13.9% to ¥871 million, compared to the same period of the previous fiscal year.

(2) Explanation of financial position

Total assets at the end of the third quarter were ¥94,981 million, an increase of ¥8,244 million compared to the end of the previous fiscal year. This was primarily the result of increases in notes and accounts receivable - trade, inventories and intangible assets.

Net assets were ¥53,565 million, a ¥6,831 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 third quarter, cash and cash equivalents (referred to below as "cash") stood at ¥17,712 million, an increase of ¥948 million compared to the end of the previous fiscal year.

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥5,322 million, a decrease of 35.5% compared to the same period of the previous fiscal year.

The increase in cash reflected principally ¥5,404 million in income before income taxes and minority interests and ¥1,818 million in depreciation. Contributing to a decrease in cash were a ¥905 million increase in inventories, a ¥989 million decrease in accounts payable - other and ¥1,756 million in income taxes paid.

Cash flows from investing activities

Net cash used in investing activities totaled ¥3,316 million, a decrease of 24.1% compared to the same period of the previous fiscal year.

The increase in cash reflected principally ¥4,035 million of proceeds from sales of property, plant and equipment. Contributing to a decrease in cash were expenditures of ¥1,566 million for the purchase of property, plant and equipment, ¥3,128 million for the purchase of intangible

assets and ¥3,066 million for the purchase of shares of subsidiaries resulting in change in scope of consolidation.

Cash flows from financing activities

Net cash used in financing activities was ¥1,883 million, an increase of 49.9% compared to the same period of the previous fiscal year.

This resulted primarily from an expenditure of ¥1,370 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 nine 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 nine months.

3. Consolidated Financial Statements

(1) Consolidated balance sheets

Unit: Millions of yen

	March 31, 2014	December 31, 2014
Assets		
Current assets		
Cash and deposits	17,562	18,174
Notes and accounts receivable - trade	22,390	23,916
Securities	198	186
Merchandise and finished goods	6,852	8,388
Work in process	226	267
Raw materials and supplies	2,199	2,940
Other	4,360	3,642
Allowance for doubtful accounts	(143)	(150)
Total current assets	53,647	57,367
Non-current assets		
Property, plant and equipment		
Land	8,017	5,191
Other, net	12,320	15,147
Total property, plant and equipment	20,337	20,339
Intangible assets		
Goodwill	4,058	6,377
Other	3,650	5,657
Total intangible assets	7,708	12,034
Investments and other assets	5,043	5,240
Total non-current assets	33,089	37,613
Total assets	86,737	94,981
Liabilities		
Current liabilities		
Notes and accounts payable - trade	5,698	7,122
Short-term loans payable	4,137	4,365
Accounts payable - other	15,691	14,237
Income taxes payable	947	810
Provision	324	331
Other	4,546	6,119
Total current liabilities	31,346	32,985
Non-current liabilities		
Bonds with subscription rights to shares	2,215	60
Long-term loans payable	1,041	2,352
Net defined benefit liability	2,159	2,075
Other	3,240	3,941
Total non-current liabilities	8,656	8,429
Total liabilities	40,002	41,415

Unit: Millions of yen

	March 31, 2014	December 31, 2014
Net assets		
Shareholders' equity		
Capital stock	7,361	8,438
Capital surplus	6,819	7,897
Retained earnings	33,557	35,318
Treasury shares	(2,556)	(2,555)
Total shareholders' equity	45,181	49,098
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	38	1
Foreign currency translation adjustment	1,902	4,684
Remeasurements of defined benefit plans	(550)	(535)
Total accumulated other comprehensive income	1,390	4,150
Subscription rights to shares	25	67
Minority interests	136	249
Total net assets	46,734	53,565
Total liabilities and net assets	86,737	94,981

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

Unit: Millions of yen

	Nine months ended December 31, 2013	Nine months ended December 31, 2014
Net sales	70,702	72,934
Cost of sales	40,819	41,587
Gross profit	29,883	31,346
Selling, general and administrative expenses	25,080	26,416
Operating income	4,803	4,929
Non-operating income		
Interest income	45	52
Dividend income	0	0
Foreign exchange gains	247	196
Rent income	118	91
Other	194	224
Total non-operating income	606	565
Non-operating expenses		
Interest expenses	99	106
Sales discounts	38	51
Other	98	145
Total non-operating expenses	235	303
Ordinary income	5,173	5,191
Extraordinary income		
Gain on sales of non-current assets	23	666
Total extraordinary income	23	666
Extraordinary losses		
Loss on retirement of non-current assets	2	4
Loss on sales of non-current assets	28	5
Impairment loss	–	443
Total extraordinary losses	30	453
Income before income taxes and minority interests	5,166	5,404
Income taxes - current	1,210	1,556
Income taxes - deferred	661	710
Total income taxes	1,871	2,267
Income before minority interests	3,294	3,137
Minority interests in income	7	3
Net income	3,286	3,134

(Consolidated statements of comprehensive income)

Unit: Millions of yen

	Nine months ended December 31, 2013	Nine months ended December 31, 2014
Income before minority interests	3,294	3,137
Other comprehensive income		
Valuation difference on available-for-sale securities	50	(36)
Foreign currency translation adjustment	1,510	2,783
Remeasurements of defined benefit plans, net of tax	–	15
Total other comprehensive income	1,561	2,761
Comprehensive income	4,856	5,899
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	4,863	5,894
Comprehensive income attributable to minority interests	(7)	4

(3) Consolidated statements of cash flows

Unit: Millions of yen

	Nine months ended December 31, 2013	Nine months ended December 31, 2014
Cash flows from operating activities		
Income before income taxes and minority interests	5,166	5,404
Depreciation	1,564	1,818
Amortization of goodwill	729	764
Impairment loss	–	443
Loss (gain) on sales of non-current assets	5	(660)
Loss on retirement of non-current assets	2	4
Increase (decrease) in provision	52	(26)
Increase (decrease) in allowance for doubtful accounts	22	7
Increase (decrease) in provision for retirement benefits	43	–
Increase (decrease) in net defined benefit liability	–	(63)
Interest and dividend income	(45)	(53)
Interest expenses	99	106
Foreign exchange losses (gains)	(371)	(192)
Decrease (increase) in notes and accounts receivable - trade	(26)	426
Decrease (increase) in inventories	(269)	(905)
Increase (decrease) in notes and accounts payable - trade	165	(163)
Increase (decrease) in accounts payable - other	1,047	(989)
Other, net	(26)	1,216
Subtotal	8,158	7,136
Interest and dividend income received	40	48
Interest expenses paid	(98)	(106)
Payments for business restructuring	(25)	–
Income taxes paid	(858)	(1,756)
Income taxes refund	1,035	–
Net cash provided by (used in) operating activities	8,252	5,322

Unit: Millions of yen

	Nine months ended December 31, 2013	Nine months ended December 31, 2014
Cash flows from investing activities		
Payments into time deposits	(712)	(248)
Proceeds from withdrawal of time deposits	677	729
Purchase of investment securities	(977)	–
Purchase of shares of subsidiaries	–	(233)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	–	(3,066)
Purchase of property, plant and equipment	(1,969)	(1,566)
Proceeds from sales of property, plant and equipment	144	4,035
Purchase of intangible assets	(1,034)	(3,128)
Payments for transfer of business	(589)	–
Other, net	93	161
Net cash provided by (used in) investing activities	(4,367)	(3,316)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(74)	(73)
Proceeds from long-term loans payable	1,000	0
Repayments of long-term loans payable	(671)	(26)
Repayments of lease obligations	(370)	(425)
Cash dividends paid	(1,138)	(1,370)
Other, net	(1)	12
Net cash provided by (used in) financing activities	(1,256)	(1,883)
Effect of exchange rate change on cash and cash equivalents	626	827
Net increase (decrease) in cash and cash equivalents	3,254	948
Cash and cash equivalents at beginning of period	11,992	16,763
Cash and cash equivalents at end of period	15,246	17,712

(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. Nine months ended December 31, 2013 (from April 1, 2013 to December 31, 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	49,491	6,920	5,285	9,006	70,702
Intersegment sales and transfer	3,915	56	209	5,511	9,692
Total	53,406	6,976	5,494	14,517	80,395
Segment profit	3,346	376	154	1,012	4,889

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	4,889
Intersegment eliminations	21
Amortization of goodwill	(41)
Adjustment of inventories	(63)
Other adjustment	(2)
Operating income on the consolidated statements of income	4,803

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

Not Applicable

II. Nine months ended December 31, 2014 (from April 1, 2014 to December 31, 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	49,236	7,885	5,768	10,043	72,934
Intersegment sales and transfer	4,637	125	247	6,334	11,345
Total	53,874	8,010	6,016	16,378	84,279
Segment profit	3,483	512	352	871	5,220

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	5,220
Intersegment eliminations	6
Amortization of goodwill	(45)
Adjustment of inventories	(252)
Other adjustment	0
Operating income on the consolidated statements of income	4,929

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

Not Applicable