

Consolidated Financial Report  
for the First Three Months of the March 2016 Term  
<Under Japanese GAAP>

July 24, 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  
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Phone: 03-5745-3414  
Scheduled submission date for quarterly securities report: August 11, 2015  
Date of commencement of dividend payments: -  
Supplementary explanatory materials for quarterly results: Available  
Holding of meeting to explain quarterly results: None

(In millions of yen, with fractional amounts discarded)

**1. Consolidated operating results for the first three months of the fiscal year ending  
March 31, 2016 (from April 1, 2015 to June 30, 2015)**

(1) Consolidated financial results (cumulative)

(Percentage figures show year-on-year change)

Three months ended	Net sales		Operating income		Ordinary income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
June 30, 2015	25,556	8.7	660	(57.0)	759	(52.3)
June 30, 2014	23,512	4.0	1,536	18.9	1,590	11.6

(Note) Comprehensive income: Three months ended June 30, 2015: ¥691 million (-8.8%)  
Three months ended June 30, 2014: ¥758 million (-45.7%)

Three months ended	Profit attributable to owners of parent		Basic earnings per share	Diluted earnings per share
	(Millions of yen)	%	(Yen)	(Yen)
June 30, 2015	312	(64.7)	9.34	9.32
June 30, 2014	886	4.9	27.70	26.44

## (2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	(Millions of yen)	(Millions of yen)	%	(Yen)
June 30, 2015	94,446	53,090	55.8	1,572.63
March 31, 2015	95,174	53,158	55.6	1,579.15

(N.B.) Total equity:

As of June 30, 2015: ¥52,682 million

As of March 31, 2015: ¥52,875 million

## 2. Dividends

	Annual dividend per share				
	First quarter	Second quarter	Third quarter	Year-end	Total
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)
March 31, 2015	–	20.00	–	25.00	45.00
March 31, 2016	–				
March 31, 2016 (Forecast)		27.00	–	28.00	55.00

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

## 3. Consolidated forecasts for the fiscal year ending March 31, 2016 (from April 1, 2015 to March 31, 2016)

(Percentage figures show year-on-year change)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Yen)
Six months	53,000	11.4	2,800	(7.2)	2,800	(11.7)	1,800	1.3	53.74
Annual	110,000	10.2	8,500	14.2	8,400	12.2	5,500	46.1	164.20

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

*For details, please refer to the section "(3) Explanation of consolidated forecasts and other projections" of "1. Qualitative Information Regarding Settlement of Accounts for the First Three Months" on page 5 of the attached materials.*

**\* Notes**

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

Newly consolidated subsidiaries: None

Companies excluded from 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 “(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 June 30, 2015: 34,897,335 shares

As of March 31, 2015: 34,880,259 shares

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

As of June 30, 2015: 1,397,419 shares

As of March 31, 2015: 1,396,867 shares

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

Three months ended June 30, 2015: 33,494,506 shares

Three months ended June 30, 2014: 32,019,340 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.*

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

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

The SATO Group has launched its new Medium-term Management Plan (FY2015–FY2017). It covers the next three years beginning in this fiscal year and is geared toward our business vision of becoming the leader in the auto-identification solutions industry worldwide. The entire Group will work together in implementing this plan that aims to realize sustainable growth and profit and establish a unique positioning in the industry on the basis of our basic strategy to “pursue globalization and maximization of customer value.”

Although net sales in Japan exceeded prior-year results due to various efforts made in the first three months of this fiscal year, profit decreased due in part to the recognition of onetime expenses. Overseas, on the other hand, we achieved progress largely as planned.

As a result of the above, for the first three months, the SATO Group recorded an increase in net sales, up 8.7% from the same period of the previous fiscal year to ¥25,556 million and a decrease in operating income, down 57.0% to ¥660 million. Ordinary income decreased by 52.3% to ¥759 million and profit attributable to owners of parent decreased by 64.7% to ¥312 million.

By segment, the SATO Group reported the following:

#### <Japan>

In the Japanese market, net sales of mechatronics products exceeded prior-year results as we offer new applications primarily targeting the logistics, manufacturing industries, and public sectors to create demand. However, net sales of supply products fell short of prior-year levels due to persistently sluggish demand primarily in the retail industry. Operating income was lower than in the previous fiscal year due to a combination of factors that included the undertaking of some low-profit large-scale business deals for strategic reasons and the recognizing of onetime personnel expenses.

Meanwhile, in August 2015, the SATO Group will be launching the Japanese version of its strategic CL4/6NX series barcode printer that has been released outside Japan for worldwide sales last fiscal year. We are also negotiating a number of business deals as demand for automation and streamlining operations in the different sectors remains upbeat, given the labor shortage trend in general. We aim to achieve our full-year targets by driving such sales activities to accurately capture demand in the growth markets.

Under these circumstances, net sales rose 0.3% to ¥15,879 million while operating income dropped 86.8% to ¥132 million, compared to the same period of the previous fiscal year.

#### <Americas>

In the North American market, net sales decreased due to the delayed realization of some business deals to the second quarter or later. Deals include the supplying of OEM food product management systems that recorded significantly increased sales last fiscal year and laser printers to apparel companies and pharmacies. Meanwhile, we launched operations of SATO Global Solutions (SGS) in April 2015, with the aim of globally promoting our proprietary auto-identification solutions integration business which entails development, production and maintenance of hardware and supplies, leveraging our software development strengths. As SGS is poised to contribute to the bottom line only in the second quarter or later, it impacted the region's operating income resulting in a year-on-year decrease.

In the South American market, Achnar S.A. of Argentina, one of our key markets, generated sales and profit growth in line with targets, despite local economic stagnation. Under these circumstances, net sales rose 11.9% to ¥2,784 million (a decrease of 3.2%, however, excluding foreign currency effects), while operating income dropped 63.4% to ¥78 million, compared to the same period of the previous fiscal year.

#### <Europe>

In the European market, we achieved substantial growth in sales and profits on account of contributions from Russia's largest label manufacturer OKIL-HOLDING, JSC, which we acquired in December 2014. Meanwhile, our existing businesses also generated firm results as we expanded the scale of our business dealings with major corporations in the U.K., Germany and France, while making efforts to enhance and strengthen production structures and develop new sales channels in each country for our sticker and label products, and implementing sales strategies aimed at improving profitability.

Under these circumstances, net sales rose 70.1% to ¥3,346 million (a rise of 70.8%, however, excluding foreign currency effects), and operating income rose 75.2% to ¥181 million, compared to the same period of the previous fiscal year.

#### <Asia and Oceania>

The Asian markets are very important as they currently account for the highest share of our overseas operating income compared to the Americas and Europe and are expected to experience further growth moving forward. Our sales subsidiaries in China, Thailand, Indonesia, India and Vietnam achieved double-digit net sales increases year-on-year, while our printer manufacturing plants in Malaysia and Vietnam also contributed to operating profit.

SATO Vicinity of Australia handles solutions using our original RFID technology, PJM, and is projected to contribute to profits from the second quarter of this fiscal year. Besides developing the Cabileo<sup>TM</sup> PJM Smart Cabinet that is capable of reading RFID-tagged items precisely at high speeds to launch for sales beginning in the first quarter of this fiscal year,

the company is pursuing multiple business negotiations mainly with parties in the healthcare sector and diamond industries, and aims to achieve operating earnings this fiscal year. Under these circumstances, net sales rose 10.1% to ¥3,546 million (a decrease of 0.8%, however, excluding foreign currency effects), and operating income rose 18.4% to ¥330 million, compared to the same period of the previous fiscal year.

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

Total assets at the end of the first quarter were ¥94,446 million, a decrease of ¥728 million compared to the end of the previous fiscal year. This was primarily the result of an increase in property, plant and equipment, as well as decreases in cash and deposits and notes and accounts receivable - trade.

Net assets were ¥53,090 million, a ¥67 million decrease from the end of the previous fiscal year, mainly due to the payment of cash dividends, notwithstanding the recording of profit attributable to owners of parent.

### ***Cash flows***

At the end of the first quarter, cash and cash equivalents (referred to below as “cash”) stood at ¥15,570 million, a decrease of ¥1,574 million compared to the end of the previous fiscal year.

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

Net cash provided by operating activities amounted to ¥143 million, a decrease of 93.4% compared to the same period of the previous fiscal year.

This resulted primarily from a ¥352 million decrease in notes and accounts payable - trade and ¥1,360 million in income taxes paid, notwithstanding cash inflows including ¥677 million in income before income taxes and non-controlling interests, ¥833 million in depreciation and a ¥1,313 million decrease in notes and accounts receivable - trade.

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

Net cash used in investing activities totaled ¥1,114 million, a decrease of 24.0% compared to the same period of the previous fiscal year.

This resulted primarily from expenditures of ¥786 million for the purchase of property, plant and equipment and ¥224 million for the purchase of intangible assets.

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

Net cash used in financing activities was ¥846, an increase of 3.3% compared to the same period of the previous fiscal year.

This resulted primarily from an expenditure of ¥818 million in cash dividends paid.



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

With respect to the performance outlook, we anticipate significant profit improvements from the second half of this fiscal year, driven by the slated introduction of our new CL4/6NX-J product to the Japanese market in the second quarter (the overseas model went on sale in April 2014), and the realization of some business deals overseas that were postponed from the first quarter. However, considering the results achieved during the first quarter, we have revised our consolidated forecasts for the first half of the current fiscal year, as follows.

#### Consolidated forecasts for the first half ending September 30, 2015

Net sales	¥53,000 million	(previous forecast ¥53,000 million)
Operating income	¥2,800 million	(previous forecast ¥3,700 million)
Ordinary income	¥2,800 million	(previous forecast ¥3,650 million)
Profit attributable to owners of parent	¥1,800 million	(previous forecast ¥2,400 million)

No changes have been made to the consolidated forecasts for the entire fiscal year.

The foreign exchange rates used for the forecast are US\$1 = ¥118 and €1 = ¥128.

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 greatly differ from the consolidated forecasts due to various factors.

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

### **(1) Changes in significant subsidiaries during the first three 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 Accounting Standard for Business Combinations, etc.***

Effective from this first quarter, the Company has applied the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, September 13, 2013), the “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013), the “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013), and related standards, leading to changes in the presentation of net income and related items and the renaming of “minority interests” to “non-controlling interests.” Consolidated financial statements for the previous fiscal year will be revised accordingly.

### 3. Consolidated Financial Statements

#### (1) Consolidated balance sheets

Unit: Millions of yen

	March 31, 2015	June 30, 2015
<b>Assets</b>		
Current assets		
Cash and deposits	18,859	17,372
Notes and accounts receivable - trade	23,354	22,183
Securities	175	244
Merchandise and finished goods	7,781	7,646
Work in process	332	439
Raw materials and supplies	2,846	2,903
Other	3,131	4,629
Allowance for doubtful accounts	(149)	(166)
<b>Total current assets</b>	<b>56,331</b>	<b>55,253</b>
Non-current assets		
Property, plant and equipment		
Land	4,975	4,973
Other, net	16,151	16,896
<b>Total property, plant and equipment</b>	<b>21,126</b>	<b>21,870</b>
Intangible assets		
Goodwill	6,291	6,026
Other	6,468	6,278
<b>Total intangible assets</b>	<b>12,760</b>	<b>12,305</b>
Investments and other assets	4,956	5,017
<b>Total non-current assets</b>	<b>38,843</b>	<b>39,192</b>
<b>Total assets</b>	<b>95,174</b>	<b>94,446</b>
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	7,067	6,799
Short-term loans payable	3,333	3,496
Accounts payable - other	14,375	14,243
Income taxes payable	1,685	646
Provision	332	327
Other	6,476	6,543
<b>Total current liabilities</b>	<b>33,271</b>	<b>32,057</b>
Non-current liabilities		
Bonds with subscription rights to shares	60	35
Long-term loans payable	2,217	2,278
Net defined benefit liability	2,634	2,735
Other	3,832	4,248
<b>Total non-current liabilities</b>	<b>8,745</b>	<b>9,297</b>
<b>Total liabilities</b>	<b>42,016</b>	<b>41,355</b>

Unit: Millions of yen

	March 31, 2015	June 30, 2015
<b>Net assets</b>		
Shareholders' equity		
Capital stock	8,438	8,451
Capital surplus	7,897	7,910
Retained earnings	35,946	35,422
Treasury shares	(2,556)	(2,557)
Total shareholders' equity	49,726	49,225
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2	2
Foreign currency translation adjustment	4,235	4,590
Remeasurements of defined benefit plans	(1,089)	(1,135)
Total accumulated other comprehensive income	3,148	3,457
Subscription rights to shares	62	72
Non-controlling interests	220	334
Total net assets	53,158	53,090
Total liabilities and net assets	95,174	94,446

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

Unit: Millions of yen

	Three months ended June 30, 2014	Three months ended June 30, 2015
Net sales	23,512	25,556
Cost of sales	13,218	14,901
Gross profit	10,293	10,655
Selling, general and administrative expenses	8,757	9,994
Operating income	1,536	660
Non-operating income		
Interest income	19	22
Dividend income	0	0
Foreign exchange gains	–	106
Rent income	36	25
Other	123	65
Total non-operating income	180	219
Non-operating expenses		
Interest expenses	36	50
Foreign exchange losses	59	–
Sales discounts	15	16
Other	13	53
Total non-operating expenses	125	120
Ordinary income	1,590	759
Extraordinary income		
Gain on sales of non-current assets	0	20
Total extraordinary income	0	20
Extraordinary losses		
Loss on retirement of non-current assets	0	1
Loss on sales of non-current assets	2	4
Restructuring loss	–	96
Total extraordinary losses	2	102
Income before income taxes	1,588	677
Income taxes - current	477	289
Income taxes - deferred	222	13
Total income taxes	700	302
Profit	887	374
Profit attributable to non-controlling interests	0	61
Profit attributable to owners of parent	886	312

**(Consolidated statements of comprehensive income)**

Unit: Millions of yen

	Three months ended June 30, 2014	Three months ended June 30, 2015
Profit	887	374
Other comprehensive income		
Valuation difference on available-for-sale securities	(10)	0
Foreign currency translation adjustment	(135)	362
Remeasurements of defined benefit plans, net of tax	16	(46)
Total other comprehensive income	(129)	317
Comprehensive income	758	691
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	757	621
Comprehensive income attributable to non-controlling interests	0	70

### (3) Consolidated statements of cash flows

Unit: Millions of yen

	Three months ended June 30, 2014	Three months ended June 30, 2015
<b>Cash flows from operating activities</b>		
Income before income taxes	1,588	677
Depreciation	577	833
Amortization of goodwill	247	348
Loss (gain) on sales of non-current assets	2	(15)
Loss on retirement of non-current assets	0	1
Loss on business restructuring	–	96
Increase (decrease) in provision	(17)	(14)
Increase (decrease) in allowance for doubtful accounts	(27)	29
Increase (decrease) in net defined benefit liability	(115)	51
Interest and dividend income	(20)	(22)
Interest expenses	36	50
Foreign exchange losses (gains)	7	(575)
Decrease (increase) in notes and accounts receivable - trade	1,990	1,313
Decrease (increase) in inventories	(740)	122
Increase (decrease) in notes and accounts payable - trade	(706)	(352)
Increase (decrease) in accounts payable - other	(318)	393
Other, net	406	(1,321)
<b>Subtotal</b>	<b>2,911</b>	<b>1,617</b>
Interest and dividend income received	18	21
Interest expenses paid	(33)	(50)
Payments for business restructuring	–	(84)
Income taxes paid	(736)	(1,360)
<b>Net cash provided by (used in) operating activities</b>	<b>2,161</b>	<b>143</b>
<b>Cash flows from investing activities</b>		
Payments into time deposits	(226)	(317)
Proceeds from withdrawal of time deposits	211	206
Purchase of shares of subsidiaries	(233)	–
Purchase of property, plant and equipment	(332)	(786)
Proceeds from sales of property, plant and equipment	9	32
Purchase of intangible assets	(960)	(224)
Other, net	63	(24)
<b>Net cash provided by (used in) investing activities</b>	<b>(1,467)</b>	<b>(1,114)</b>
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term loans payable	21	277
Proceeds from long-term loans payable	–	75
Repayments of long-term loans payable	(4)	(85)
Purchase of treasury shares	(0)	(1)
Repayments of lease obligations	(156)	(293)
Cash dividends paid	(679)	(818)
<b>Net cash provided by (used in) financing activities</b>	<b>(819)</b>	<b>(846)</b>
Effect of exchange rate change on cash and cash equivalents	(65)	242
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(191)</b>	<b>(1,574)</b>
Cash and cash equivalents at beginning of period	16,763	17,145
<b>Cash and cash equivalents at end of period</b>	<b>16,572</b>	<b>15,570</b>

#### (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. Three months ended June 30, 2014 (from April 1, 2014 to June 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	15,834	2,489	1,966	3,221	23,512
Intersegment sales and transfer	1,505	28	80	2,039	3,654
Total	17,340	2,517	2,047	5,261	27,167
Segment profit	1,000	213	103	278	1,597

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

Unit: Millions of yen

Profit	Amount
Reportable segments total	1,597
Intersegment eliminations	0
Amortization of goodwill	(15)
Adjustment of inventories	(45)
Other adjustment	(0)
Operating income on the consolidated statements of income	1,536

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

Not Applicable



II. Three months ended June 30, 2015 (from April 1, 2015 to June 30, 2015)

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	15,879	2,784	3,346	3,546	25,556
Intersegment sales and transfer	1,529	10	81	2,033	3,656
Total	17,408	2,795	3,427	5,580	29,213
Segment profit	132	78	181	330	722

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	722
Intersegment eliminations	0
Amortization of goodwill	(15)
Adjustment of inventories	(46)
Other adjustment	(0)
Operating income on the consolidated statements of income	660

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

Not Applicable