

Consolidated Financial Report
for the First Three Months of the March 2017 Term
<Under Japanese GAAP>

August 5, 2016

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: Yoichi Abe, Chief Financial Officer (CFO),
Executive Officer
Phone: 03-5745-3414
Scheduled submission date for quarterly securities report: August 10, 2016
Date of commencement of dividend payments: -
Supplementary explanatory materials for quarterly results: Available
Holding of meeting to explain quarterly results: None

(millions of yen, with fractional amounts discarded)

1. Consolidated operating results for the first three months of the fiscal year ending March 31, 2017 (from April 1, 2016 to June 30, 2016)

(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, 2016	25,341	(0.8)	1,047	58.5	850	11.9
June 30, 2015	25,556	8.7	660	(57.0)	759	(52.3)

(Note) Comprehensive income: Three months ended June 30, 2016: ¥(2,138) million (-%)
Three months ended June 30, 2015: ¥691 million (-8.8%)

Three months ended	Profit attributable to owners of parent		Basic earnings per share	Diluted earnings per share
	(Millions of yen)	%	(Yen)	(Yen)
June 30, 2016	453	44.9	13.52	13.50
June 30, 2015	312	(64.7)	9.34	9.32

(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, 2016	93,368	49,088	51.5	1,433.09
March 31, 2016	96,743	52,157	52.8	1,525.14

(N.B.) Total equity:

As of June 30, 2016: ¥48,043 million

As of March 31, 2016: ¥51,127 million

2. Dividends

	Annual dividend per share				
	First quarter	Second quarter	Third quarter	Year-end	Total
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)
March 31, 2016	–	27.00	–	28.00	55.00
March 31, 2017	–				
March 31, 2017 (Forecast)		30.00	–	30.00	60.00

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

3. Consolidated forecasts for the fiscal year ending March 31, 2017 (from April 1, 2016 to March 31, 2017)

(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	54,500	5.0	3,300	56.2	3,250	58.3	2,000	76.6	59.66
Annual	113,000	7.1	8,000	23.9	7,900	29.1	5,000	35.5	149.14

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

*** Notes**

- (1) Changes in significant subsidiaries during the first three months (changes in specified subsidiaries resulting in 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, 2016: 34,921,242 shares

As of March 31, 2016: 34,921,242 shares

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

As of June 30, 2016: 1,396,750 shares

As of March 31, 2016: 1,397,962 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, 2016: 33,524,544 shares

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

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

The SATO Group has launched its new five-year Medium-term Management Plan (FY2016–FY2020) which is geared toward our business vision of becoming the leader in the auto-identification solutions industry worldwide and the world’s most trusted company. The entire Group will work together in implementing this plan that aims to realize sustainable growth and profit on the basis of our basic strategy to “pursue globalization and maximization of customer value.”

In Japan, although net sales fell below the same period of the previous fiscal year, profitability improved and operating income increased due to various efforts made in the first three months of this fiscal year. Overseas, business progressed largely as planned, with both revenues and profits rising from the same period of the previous fiscal year, notwithstanding the negative effects of yen appreciation.

As a result of the above, for the first three months, the SATO Group recorded a decrease in net sales, down 0.8% from the same period of the previous fiscal year to ¥25,341 million and an increase in operating income, up 58.5% to ¥1,047 million. Ordinary income increased by 11.9% to ¥850 million and profit attributable to owners of parent increased by 44.9% to ¥453 million.

By segment, the SATO Group reported the following:

<Japan>

In the Japanese market, net sales of mechatronics products fell below prior-year results due to the absence of large-scale orders that were recorded last fiscal year. Net sales of supply products, on the other hand, were relatively consistent year on year as manufacturing and e-commerce sectors generate increasing demand to compensate for the persistently sluggish demand in the retail industry. Operating income rose from the previous fiscal year due to a combination of factors that include lower procurement costs from a stronger yen, improved gross profit margins due to expanded sales of high value-add products such as the strategic CLNX-J barcode printer series, and a more efficient deployment of SG&A expenses.

Given the trend of overall labor shortage, demand for automation and streamlining operations in the logistics (including e-commerce), manufacturing, and other industries remains upbeat, leading to multiple business deals now underway. We aim to achieve our full-year targets by driving sales activities to accurately capture demand in these growth markets.

Under these circumstances, net sales decreased 2.4% to ¥15,495 million, while operating income rose 117.7% to ¥288 million, compared to the same period of the previous fiscal year.

<Americas>

In the North American market, net sales and operating income increased largely year on year as SATO America expands its label business with major drug store and improves sales of barcode printers including the CLNX series. SATO Global Solutions (SGS) is making concrete progress in business deals related to the retail-focused digital solutions it has developed jointly with multiple major global companies, and targets to contribute to the bottom line from the second half.

In the South American market, Brazilian leading primary label producer Prakolar Rotulos Auto-Adesivos S.A., which we acquired in November 2015, contributed positively to sales results in the region. Regional operating income fell year on year, however, due to the drastic decline in South American currencies and the delay of certain large-scale business deals at Achernar S.A. into the second quarter or later.

Under these circumstances, net sales rose 28.0% to ¥3,562 million (an increase of 51.0%, however, excluding foreign currency effects) and operating income rose 53.9% to ¥120 million, compared to the same period of the previous fiscal year.

<Europe>

In the European market, our primary label company Okil-Holding, JSC in Russia has outperformed expectations and continued to go strong. Existing business also exceeded expectations as measures to strengthen our sales structure produced results in terms of winning large-scale RFID label deals and boosting sales of our CLNX series in Germany. We are now driving various more sales-enhancement measures to win new large-scale projects in other European countries and to establish stable repeat business for supply products while utilizing our new label plant in Poland that began operations in March 2016.

Under these circumstances, both revenues and profits rose on a local-currency basis, although yen appreciation caused net sales in Japanese yen terms to fall 7.1% to ¥3,109 million (a rise of 16.3%, however, excluding foreign currency effects), while operating income rose 12.8% to ¥205 million, compared to the same period of the previous fiscal year.

<Asia and Oceania>

In Asia, net sales in key markets such as China, Thailand, and Malaysia recorded sluggish growth due in part to regional economic slowdown, while operating income decreased year on year as a result of our sales force upsizing and large-scale capital investment in Indonesia. In Oceania, on the other hand, earnings improved for our sales companies and SATO Vicinity, which develops solutions based on PJM, our proprietary RFID technology. Meanwhile in Taiwan, we are aiming to achieve full-year operating profitability for Argox Information Co., Ltd. after amortization of goodwill by enhancing its sales strength, introducing new products, and overhauling its sales policies.

The Asian markets are very important as they account for a high share of our overseas operating income, and we expect them to grow further going forward. We have constructed a

new label plant in Indonesia in May 2016 to strengthen business in the country, and will continue to consider investing business resources for further market expansion in the region. Under these circumstances, net sales decreased 10.5% to ¥3,172 million (a rise of 4.7%, however, excluding foreign currency effects), while operating income rose 11.1% to ¥366 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 ¥93,368 million, a decrease of ¥3,375 million compared to the end of the previous fiscal year. This was primarily the result of decreases in notes and accounts receivable - trade, property, plant and equipment, intangible assets and investments and other assets.

Net assets were ¥49,088 million, a ¥3,068 million decrease from the end of the previous fiscal year, mainly due to the decrease in foreign currency translation adjustment and 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 ¥15,462 million, a decrease of ¥749 million compared to the end of the previous fiscal year.

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥2,321 million.

This resulted primarily from ¥851 million of profit before income taxes, ¥972 million for depreciation and a ¥781 million decrease in notes and accounts receivable - trade, offsetting a ¥355 million increase in inventories and ¥555 million of income taxes paid.

Cash flows from investing activities

Net cash used in investing activities totaled ¥857 million, a decrease of 23.1% compared to the same period of the previous fiscal year.

This resulted primarily from expenditures of ¥595 million for purchase of property, plant and equipment and ¥203 million for purchase of intangible assets.

Cash flows from financing activities

Net cash used in financing activities was ¥1,329 million, an increase of 57.1% compared to the same period of the previous fiscal year.

This resulted primarily from ¥914 million of cash dividends paid.

(3) Explanation of consolidated forecasts and other projections

Regarding the consolidated forecasts for the fiscal year ending March 31, 2017, no changes have

been made to the forecasts that were announced on May 10, 2016.

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 Practical Solution on a Change in Depreciation Method due to Tax Reform 2016

In accordance with revisions to the Corporation Tax Act of Japan, the Company has applied the “Practical Solution on a Change in Depreciation Method due to Tax Reform 2016” (Accounting Standards Board of Japan (ASBJ) PITF No. 32, June 17, 2016) from the first quarter of the consolidated fiscal year under review, and changed from the declining-balance method to the straight-line method for calculating depreciation of facilities attached to buildings and structures acquired on or after April 1, 2016.

The impact of this change on operating income, ordinary income and profit before income taxes for the first three months was minimal.

(3) Additional information

The Company has applied the “Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016) from the first quarter.

3. Consolidated Financial Statements

(1) Consolidated balance sheets

Unit: Millions of yen

	March 31, 2016	June 30, 2016
Assets		
Current assets		
Cash and deposits	17,856	17,233
Notes and accounts receivable - trade	22,460	21,156
Securities	187	97
Merchandise and finished goods	7,264	7,208
Work in process	422	442
Raw materials and supplies	2,795	2,570
Other	3,388	4,527
Allowance for doubtful accounts	(139)	(139)
Total current assets	54,235	53,096
Non-current assets		
Property, plant and equipment		
Land	5,440	5,350
Machinery, equipment and vehicles	10,146	10,289
Other, net	9,267	8,448
Total property, plant and equipment	24,853	24,088
Intangible assets		
Goodwill	4,546	4,063
Other	6,237	5,972
Total intangible assets	10,784	10,036
Investments and other assets	6,869	6,146
Total non-current assets	42,508	40,271
Total assets	96,743	93,368
Liabilities		
Current liabilities		
Notes and accounts payable - trade	6,475	6,070
Short-term loans payable	7,783	4,604
Accounts payable - other	13,054	13,458
Income taxes payable	947	913
Provision	386	404
Other	5,101	5,631
Total current liabilities	33,750	31,082
Non-current liabilities		
Long-term loans payable	3,935	6,719
Net defined benefit liability	2,212	2,004
Other	4,689	4,472
Total non-current liabilities	10,836	13,196
Total liabilities	44,586	44,279

Unit: Millions of yen

	March 31, 2016	June 30, 2016
Net assets		
Shareholders' equity		
Capital stock	8,468	8,468
Capital surplus	7,666	7,667
Retained earnings	37,894	37,408
Treasury shares	(2,559)	(2,557)
Total shareholders' equity	51,470	50,987
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1	0
Foreign currency translation adjustment	310	(2,394)
Remeasurements of defined benefit plans	(654)	(550)
Total accumulated other comprehensive income	(342)	(2,944)
Subscription rights to shares	100	106
Non-controlling interests	928	939
Total net assets	52,157	49,088
Total liabilities and net assets	96,743	93,368

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

Unit: Millions of yen

	Three months ended June 30, 2015	Three months ended June 30, 2016
Net sales	25,556	25,341
Cost of sales	14,901	14,519
Gross profit	10,655	10,821
Selling, general and administrative expenses	9,994	9,774
Operating income	660	1,047
Non-operating income		
Interest income	22	36
Dividend income	0	6
Foreign exchange gains	106	–
Rent income	25	36
Other	65	43
Total non-operating income	219	121
Non-operating expenses		
Interest expenses	50	33
Foreign exchange losses	–	178
Sales discounts	16	15
Share of loss of entities accounted for using equity method	–	45
Other	53	44
Total non-operating expenses	120	318
Ordinary income	759	850
Extraordinary income		
Gain on sales of non-current assets	20	5
Total extraordinary income	20	5
Extraordinary losses		
Loss on retirement of non-current assets	1	0
Loss on sales of non-current assets	4	3
Restructuring loss	96	–
Total extraordinary losses	102	3
Profit before income taxes	677	851
Income taxes - current	289	450
Income taxes - deferred	13	(79)
Total income taxes	302	371
Profit	374	480
Profit attributable to non-controlling interests	61	27
Profit attributable to owners of parent	312	453

(Consolidated statements of comprehensive income)

Unit: Millions of yen

	Three months ended June 30, 2015	Three months ended June 30, 2016
Profit	374	480
Other comprehensive income		
Valuation difference on available-for-sale securities	0	(0)
Foreign currency translation adjustment	362	(2,455)
Remeasurements of defined benefit plans, net of tax	(46)	103
Share of other comprehensive income of entities accounted for using equity method	–	(266)
Total other comprehensive income	317	(2,619)
Comprehensive income	691	(2,138)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	621	(2,148)
Comprehensive income attributable to non-controlling interests	70	10

(3) Consolidated statements of cash flows

Unit: Millions of yen

	Three months ended June 30, 2015	Three months ended June 30, 2016
Cash flows from operating activities		
Profit before income taxes	677	851
Depreciation	833	972
Amortization of goodwill	348	299
Loss (gain) on sales of non-current assets	(15)	(2)
Loss on retirement of non-current assets	1	0
Loss on business restructuring	96	–
Increase (decrease) in provision	(14)	23
Increase (decrease) in allowance for doubtful accounts	29	(27)
Increase (decrease) in net defined benefit liability	51	(105)
Interest and dividend income	(22)	(42)
Interest expenses	50	33
Foreign exchange losses (gains)	(575)	428
Decrease (increase) in notes and accounts receivable - trade	1,313	781
Decrease (increase) in inventories	122	(355)
Increase (decrease) in notes and accounts payable - trade	(352)	(201)
Increase (decrease) in accounts payable - other	393	460
Other, net	(1,321)	(250)
Subtotal	1,617	2,865
Interest and dividend income received	21	42
Interest expenses paid	(50)	(30)
Payments for business restructuring	(84)	–
Income taxes paid	(1,360)	(555)
Net cash provided by (used in) operating activities	143	2,321
Cash flows from investing activities		
Payments into time deposits	(317)	(478)
Proceeds from withdrawal of time deposits	206	252
Purchase of property, plant and equipment	(786)	(595)
Proceeds from sales of property, plant and equipment	32	24
Purchase of intangible assets	(224)	(203)
Other, net	(24)	142
Net cash provided by (used in) investing activities	(1,114)	(857)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	277	(3,125)
Proceeds from long-term loans payable	75	2,933
Repayments of long-term loans payable	(85)	(60)
Purchase of treasury shares	(1)	(0)
Repayments of lease obligations	(293)	(161)
Cash dividends paid	(818)	(914)
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	–	0
Net cash provided by (used in) financing activities	(846)	(1,329)
Effect of exchange rate change on cash and cash equivalents	242	(885)
Net increase (decrease) in cash and cash equivalents	(1,574)	(749)
Cash and cash equivalents at beginning of period	17,145	16,212
Cash and cash equivalents at end of period	15,570	15,462

(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, 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. Difference between the total amount of profit or loss for reportable segments and the amount recorded on the consolidated statements of income, and a 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

II. Three months ended June 30, 2016 (from April 1, 2016 to June 30, 2016)

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	15,495	3,562	3,109	3,172	25,341
Intersegment sales and transfer	1,220	9	70	2,011	3,312
Total	16,716	3,572	3,179	5,184	28,653
Segment profit	288	120	205	366	980

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

	Unit: Millions of yen
Profit	Amount
Reportable segments total	980
Intersegment eliminations	(1)
Amortization of goodwill	(12)
Adjustment of inventories	80
Other adjustment	0
Operating income on the consolidated statements of income	1,047

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

Not Applicable