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

October 23, 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: November 11, 2015
Date of commencement of dividend payments: November 25, 2015
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, 2016 (from April 1, 2015 to September 30, 2015)

(1) Consolidated financial results (cumulative)

(Percentage figures show year-on-year change)

	Net sales		Operating income		Ordinary income	
Six months ended	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
September 30, 2015	51,880	9.1	2,112	(30.0)	2,053	(35.2)
September 30, 2014	47,566	3.1	3,018	2.4	3,171	(0.6)

(Note) Comprehensive income: Six months ended September 30, 2015: ¥(1,167) million (-%)
Six months ended September 30, 2014: ¥2,920 million (28.4%)

	Profit attributable to owners of parent		Basic earnings per share	Diluted earnings per share
Six months ended	(Millions of yen)	%	(Yen)	(Yen)
September 30, 2015	1,132	(36.3)	33.80	33.73
September 30, 2014	1,776	(6.2)	54.56	52.68

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	(Millions of yen)	(Millions of yen)	%	(Yen)
September 30, 2015	92,057	51,677	55.1	1,513.09
March 31, 2015	95,174	53,158	55.6	1,579.15

(N.B.) Total equity:

As of September 30, 2015: ¥50,687 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	–	27.00			
March 31, 2016 (Forecast)			–	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)
Annual	110,000	10.2	7,600	2.1	7,500	0.2	4,500	19.6	134.34

(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 Six Months” on page 5 of the attached materials.

*** 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 "(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 September 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 September 30, 2015:	1,397,744 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 six months):

Six months ended September 30, 2015:	33,497,064 shares
Six months ended September 30, 2014:	32,562,112 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

Index

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 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 six months of this fiscal year, profit decreased due in part to higher overseas production procurement costs stemming from yen depreciation and the recognition of onetime expenses. Overseas, on the other hand, we achieved double-digit increases in revenues and operating profit year-on-year.

As a result of the above, for the first six months, the SATO Group recorded an increase in net sales, up 9.1% from the same period of the previous fiscal year to ¥51,880 million and a decrease in operating income, down 30.0% to ¥2,112 million. Ordinary income decreased by 35.2% to ¥2,053 million and profit attributable to owners of parent decreased by 36.3% to ¥1,132 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 increased overseas production procurement costs due to ongoing weakening of the Japanese yen , a rise in depreciation expenses in line with the renewal of core in-house systems and the recognizing of onetime personnel expenses.
Meanwhile, in August 2015, the SATO Group launched CL4NX-J/CL6NX-J, the Japanese versions of its strategic CL4NX/CL6NX barcode printers that were released outside Japan for worldwide sales last fiscal year. We are also negotiating a number of business deals including but not limited to this new printer series 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 0.1% to ¥32,309 million while operating income dropped 53.9% to ¥921 million, compared to the same period of the previous fiscal year.

<Americas>

In the North American market, net sales were lackluster year on year due to the delayed realization of multiple large-scale business deals to the third quarter or later. In addition, operating income in the region declined due in part to increased upfront investments on SATO Global Solutions (SGS) which was newly established to incorporate our software development strengths into our global solutions business involving development, production and maintenance of hardware and supplies. SGS is poised to contribute to the bottom line in the third quarter or later.

In the South American market, Achernar S.A. of Argentina, one of our key markets, succeeded in closing a large-scale business deal with a leading beverage producer despite local economic stagnation to help keep regional sales and operating income growth on target.

Under these circumstances, net sales rose 14.8% to ¥5,725 million (a decrease of 0.3%, however, excluding foreign currency effects), while operating income dropped 76.9% to ¥88 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, 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 77.8% to ¥6,747 million (a rise of 77.3%, however, excluding foreign currency effects), and operating income rose 86.2% to ¥417 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. Amid sluggish economic performance across Asia, our sales subsidiaries—particularly those in Thailand, Indonesia, India and Vietnam—achieved significant year-on-year net sales increases on a local currency basis, 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 third quarter of this fiscal year. Besides developing the Cabileo™ 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 9.0% to ¥7,098 million (a rise of 1.3%, however, excluding foreign currency effects), and operating income rose 45.2% to ¥753 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 ¥92,057 million, a decrease of ¥3,117 million compared to the end of the previous fiscal year. This was primarily the result of decreases in cash and deposits and notes and accounts receivable - trade.

Net assets were ¥51,677 million, a ¥1,480 million decrease from the end of the previous fiscal year, mainly due to the payment of cash dividends and the decrease in foreign currency translation adjustment.

Cash flows

At the end of the second quarter, cash and cash equivalents (referred to below as "cash") stood at ¥15,297 million, a decrease of ¥1,847 million compared to the end of the previous fiscal year.

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥2,242 million, a decrease of 25.7% compared to the same period of the previous fiscal year.

This resulted primarily from a ¥428 million decrease in accounts payable - other and ¥1,470 million in income taxes paid, notwithstanding cash inflows including ¥1,953 million in income before income taxes, ¥1,921 million in depreciation and a ¥1,096 million decrease in notes and accounts receivable - trade.

Cash flows from investing activities

Net cash used in investing activities totaled ¥3,250 million, an increase of 28.0% compared to the same period of the previous fiscal year.

This resulted primarily from expenditures of ¥2,332 million for the purchase of property, plant and equipment and ¥409 million for the purchase of intangible assets.

Cash flows from financing activities

Net cash used in financing activities was ¥374 million, a decrease of 64.5% compared to the same period of the previous fiscal year.

This resulted primarily from cash expenditures of ¥919 million in repayments of lease obligations and ¥836 million in cash dividends paid, offsetting the ¥1,401 million net increase in short-term loans payable.

(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 based on increased sales of our new CL4NX-J/CL6NX-J printers launched in the Japanese market in the second quarter (the overseas models went on sale in April 2014) and recovery in sales and profits of our supplies business. However, considering the results achieved during the first six months, we have revised our consolidated forecasts for the entire fiscal year, as follows.

Consolidated forecasts for the fiscal year ending March 31, 2016

Net sales	¥110,000 million	(previous forecast ¥110,000 million)
Operating income	¥7,600 million	(previous forecast ¥8,500 million)
Ordinary income	¥7,500 million	(previous forecast ¥8,400 million)
Profit attributable to owners of parent	¥4,500 million	(previous forecast ¥5,500 million)

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 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 Accounting Standard for Business Combinations, etc.

Effective from the 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. As a result, the accounting method was changed to record the difference arising from changes in the Company’s ownership interests in its controlled subsidiaries as capital surplus, and to record acquisition-related costs as expenses for the fiscal year in which they are incurred. Furthermore, for business combinations occurring on or after the beginning of the first quarter, the accounting method was changed whereby adjustments to the amount allocated to acquisition cost under provisional accounting treatment are recognized in the consolidated financial statements for the quarterly period in which the relevant business combinations became or will become effective. In addition, the Company has changed its presentation of net income and related items, and renamed “minority interests” to “non-controlling interests.” To reflect these changes, consolidated financial statements for the previous fiscal year have been revised accordingly.

In the consolidated statements of cash flows for the first six months of the current fiscal year, cash flows for the purchase or sale of shares of subsidiaries without changing the scope of consolidation are listed under “Cash flows from financing activities.” Cash flows for expenses related to the purchase of shares of subsidiaries resulting in changes in the scope of consolidation and expenses related to the purchase or sale of shares of subsidiaries without changing the scope of consolidation are listed under “Cash flows from operating activities.”

The Company is applying the Accounting Standard for Business Combinations, etc. in accordance with transitional measures in Paragraph 58-2 (4) of the Accounting Standard for Business Combinations, Paragraph 44-5 (4) of the Accounting Standard for Consolidated Financial Statements and Paragraph 57-4 (4) of the Accounting Standard for Business Divestitures, prospectively from the beginning of the first quarter.

The impact of these changes on consolidated financial statements for the first six months was minimal.

3. Consolidated Financial Statements

(1) Consolidated balance sheets

Unit: Millions of yen

	March 31, 2015	September 30, 2015
Assets		
Current assets		
Cash and deposits	18,859	16,895
Notes and accounts receivable - trade	23,354	21,869
Securities	175	241
Merchandise and finished goods	7,781	7,465
Work in process	332	449
Raw materials and supplies	2,846	2,622
Other	3,131	3,184
Allowance for doubtful accounts	(149)	(155)
Total current assets	56,331	52,572
Non-current assets		
Property, plant and equipment		
Machinery, equipment and vehicles, net	7,718	9,469
Land	4,975	5,063
Other, net	8,432	9,218
Total property, plant and equipment	21,126	23,752
Intangible assets		
Goodwill	6,291	3,861
Other	6,468	6,556
Total intangible assets	12,760	10,418
Investments and other assets	4,956	5,315
Total non-current assets	38,843	39,485
Total assets	95,174	92,057
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,067	6,716
Short-term loans payable	3,333	4,757
Accounts payable - other	14,375	13,535
Income taxes payable	1,685	746
Provision	332	337
Other	6,476	5,227
Total current liabilities	33,271	31,320
Non-current liabilities		
Bonds with subscription rights to shares	60	35
Long-term loans payable	2,217	2,220
Net defined benefit liability	2,634	2,620
Other	3,832	4,182
Total non-current liabilities	8,745	9,059
Total liabilities	42,016	40,380

Unit: Millions of yen

	March 31, 2015	September 30, 2015
Net assets		
Shareholders' equity		
Capital stock	8,438	8,451
Capital surplus	7,897	7,649
Retained earnings	35,946	36,241
Treasury shares	(2,556)	(2,559)
Total shareholders' equity	49,726	49,782
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2	2
Foreign currency translation adjustment	4,235	1,950
Remeasurements of defined benefit plans	(1,089)	(1,047)
Total accumulated other comprehensive income	3,148	904
Subscription rights to shares	62	82
Non-controlling interests	220	907
Total net assets	53,158	51,677
Total liabilities and net assets	95,174	92,057

(2) Consolidated statements of (comprehensive) income

(Consolidated statements of income)

Unit: Millions of yen

	Six months ended September 30, 2014	Six months ended September 30, 2015
Net sales	47,566	51,880
Cost of sales	26,983	30,219
Gross profit	20,582	21,660
Selling, general and administrative expenses	17,564	19,547
Operating income	3,018	2,112
Non-operating income		
Interest income	35	49
Dividend income	0	1
Foreign exchange gains	69	–
Rent income	63	49
Other	173	117
Total non-operating income	343	218
Non-operating expenses		
Interest expenses	73	127
Foreign exchange losses	–	1
Sales discounts	32	31
Other	84	118
Total non-operating expenses	190	277
Ordinary income	3,171	2,053
Extraordinary income		
Gain on sales of non-current assets	5	20
Total extraordinary income	5	20
Extraordinary losses		
Loss on retirement of non-current assets	4	1
Loss on sales of non-current assets	5	6
Restructuring loss	–	99
Loss on prior period adjustment	–	12
Total extraordinary losses	9	120
Income before income taxes	3,167	1,953
Income taxes - current	899	667
Income taxes - deferred	489	126
Total income taxes	1,388	793
Profit	1,778	1,159
Profit attributable to non-controlling interests	1	27
Profit attributable to owners of parent	1,776	1,132

(Consolidated statements of comprehensive income)

Unit: Millions of yen

	Six months ended September 30, 2014	Six months ended September 30, 2015
Profit	1,778	1,159
Other comprehensive income		
Valuation difference on available-for-sale securities	42	(0)
Foreign currency translation adjustment	1,077	(2,369)
Remeasurements of defined benefit plans, net of tax	22	42
Total other comprehensive income	1,142	(2,327)
Comprehensive income	2,920	(1,167)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,918	(1,111)
Comprehensive income attributable to non-controlling interests	2	(56)

(3) Consolidated statements of cash flows

Unit: Millions of yen

	Six months ended September 30, 2014	Six months ended September 30, 2015
Cash flows from operating activities		
Income before income taxes	3,167	1,953
Depreciation	1,183	1,921
Amortization of goodwill	497	604
Loss (gain) on sales of non-current assets	(0)	(13)
Loss on retirement of non-current assets	4	1
Loss on business restructuring	–	99
Increase (decrease) in provision	34	9
Increase (decrease) in allowance for doubtful accounts	(21)	4
Increase (decrease) in net defined benefit liability	(94)	22
Interest and dividend income	(36)	(51)
Interest expenses	73	127
Foreign exchange losses (gains)	(67)	(393)
Decrease (increase) in notes and accounts receivable - trade	2,010	1,096
Decrease (increase) in inventories	(751)	50
Increase (decrease) in notes and accounts payable - trade	(544)	(1)
Increase (decrease) in accounts payable - other	(1,814)	(428)
Other, net	494	(1,122)
Subtotal	4,134	3,880
Interest and dividend income received	33	49
Interest expenses paid	(73)	(118)
Payments for business restructuring	–	(99)
Income taxes paid	(1,076)	(1,470)
Net cash provided by (used in) operating activities	3,018	2,242
Cash flows from investing activities		
Payments into time deposits	(226)	(1,428)
Proceeds from withdrawal of time deposits	686	1,415
Purchase of shares of subsidiaries	(233)	–
Purchase of property, plant and equipment	(810)	(2,332)
Proceeds from sales of property, plant and equipment	17	98
Purchase of intangible assets	(2,078)	(409)
Payments for transfer of business	–	(162)
Other, net	105	(430)
Net cash provided by (used in) investing activities	(2,539)	(3,250)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(68)	1,401
Proceeds from long-term loans payable	–	69
Repayments of long-term loans payable	(5)	(86)
Repayments of lease obligations	(290)	(919)
Cash dividends paid	(704)	(836)
Other, net	13	(2)
Net cash provided by (used in) financing activities	(1,055)	(374)
Effect of exchange rate change on cash and cash equivalents	246	(464)
Net increase (decrease) in cash and cash equivalents	(329)	(1,847)
Cash and cash equivalents at beginning of period	16,763	17,145
Cash and cash equivalents at end of period	16,434	15,297

(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, 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

II. Six months ended September 30, 2015 (from April 1, 2015 to September 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	32,309	5,725	6,747	7,098	51,880
Intersegment sales and transfer	2,835	26	153	3,998	7,013
Total	35,144	5,751	6,901	11,096	58,894
Segment profit	921	88	417	753	2,180

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	2,180
Intersegment eliminations	1
Amortization of goodwill	(28)
Adjustment of inventories	(40)
Other adjustment	(0)
Operating income on the consolidated statements of income	2,112

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

(Significant changes in the amount of goodwill)

In the “Europe” segment, when the Company acquired Okil-Holding, JSC in the previous fiscal year, provisionally calculated goodwill of ¥2,611 million was recorded. As the allocation of acquisition costs is now complete, this figure has been revised to ¥1,136 million.