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

February 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:	Akihiro Kushida, Vice President and Chief Financial Officer (CFO), Director Phone: 03-5745-3414
Scheduled submission date for quarterly securities report:	February 12, 2016
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 nine months of the fiscal year ending March 31, 2016 (from April 1, 2015 to December 31, 2015)

(1) Consolidated financial results (cumulative)

(Percentage figures show year-on-year change)

	Net sales		Operating income		Ordinary income	
Nine months ended	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
December 31, 2015	78,767	8.0	4,149	(15.8)	3,927	(24.3)
December 31, 2014	72,934	3.2	4,929	2.6	5,191	0.3

(Note) Comprehensive income: Nine months ended December 31, 2015: ¥(498) million (-%)
Nine months ended December 31, 2014: ¥5,899 million (21.5%)

	Profit attributable to owners of parent		Basic earnings per share	Diluted earnings per share
Nine months ended	(Millions of yen)	%	(Yen)	(Yen)
December 31, 2015	2,202	(29.7)	65.75	65.62
December 31, 2014	3,134	(4.6)	95.36	93.02

(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, 2015	97,430	51,565	51.9	1,509.19
March 31, 2015	95,174	53,158	55.6	1,579.15

(N.B.) Total equity:

As of December 31, 2015: ¥50,557 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	134.33

(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 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 December 31, 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 December 31, 2015:	1,397,866 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 nine months):

Nine months ended December 31, 2015:	33,497,878 shares
Nine months ended December 31, 2014:	32,870,436 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

Index

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 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.”

Various efforts made in the first nine months of this fiscal year resulted in a year-on-year increase in net sales, although profits were down. Sales in Japan were up slightly year on year, but operating profit decreased, owing in part to increases in the depreciation expenses of new core in-house systems and the overseas production procurement costs triggered by a weakening yen. Overseas, on the other hand, net sales and operating profit increased by more than 20% year on year.

As a result of the above, for the first nine months, the SATO Group recorded an increase in net sales, up 8.0% from the same period of the previous fiscal year to ¥78,767 million and a decrease in operating income, down 15.8% to ¥4,149 million. Ordinary income decreased by 24.3% to ¥3,927 million and profit attributable to owners of parent decreased by 29.7% to ¥2,202 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 which is recovering to show a year-on-year increase in the third quarter, fell short of prior-year levels when compared over the nine-month period 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 of this fiscal year, 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 making progress in the negotiation and conclusion of contracts for multiple 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 was ¥49,241 million, largely unchanged from the same period of the previous fiscal year while operating income dropped 38.4% to ¥2,147 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 some large-scale business deals to the fourth quarter and retreating laser printer demand from the preceding fiscal year. 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 next 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 11.5% to ¥8,789 million (an increase of 0.4%, however, excluding foreign currency effects), while operating income dropped 52.7% to ¥242 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 for our sticker and label products in each country with cost reductions, develop new sales channels, and implement sales strategies aimed at improving profitability with a focus on environmental protection and high value-add products.

Under these circumstances, net sales rose 76.7% to ¥10,196 million (a rise of 77.9%, however, excluding foreign currency effects), and operating income rose 94.3% to ¥685 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 the widespread economic slowdown 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 cost reductions at our printer manufacturing plants in Malaysia and Vietnam also contributed to operating profit.
Under these circumstances, net sales rose 4.9% to ¥10,540 million (a rise of 1.2%, however, excluding foreign currency effects), and operating income rose 37.6% to ¥1,199 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 ¥97,430 million, an increase of ¥2,255 million compared to the end of the previous fiscal year. This was primarily the result of increases in property, plant and equipment and investments and other assets.

Net assets were ¥51,565 million, a ¥1,592 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 third quarter, cash and cash equivalents (referred to below as “cash”) stood at ¥13,966 million, a decrease of ¥3,179 million compared to the end of the previous fiscal year.

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥3,285 million, a decrease of 38.3% compared to the same period of the previous fiscal year.

This resulted primarily from a ¥460 million increase in inventories and ¥2,198 million in income taxes paid, notwithstanding cash inflows including ¥3,709 million in income before income taxes and ¥2,927 million in depreciation.

Cash flows from investing activities

Net cash used in investing activities totaled ¥9,563 million, an increase of 188.3% compared to the same period of the previous fiscal year.

This resulted primarily from expenditures of ¥2,109 million for the purchase of investment securities, ¥3,621 million for the purchase of property, plant and equipment and ¥2,753 million for the purchase of shares of subsidiaries resulting in change in scope of consolidation.

Cash flows from financing activities

Net cash provided by financing activities was ¥3,452 million.

This resulted primarily from a ¥5,397 million net increase in short-term loans payable and ¥1,032 million proceeds from long-term loans payable, offsetting the ¥1,104 million in repayments of lease obligations and ¥1,737 million in cash dividends paid.

(3) Explanation of consolidated forecasts and other projections

Regarding the consolidated forecasts for the fiscal year ending March 31, 2016, no changes have been made to the forecasts that were announced on October 23, 2015.

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 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 nine 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 nine months was minimal.

3. Consolidated Financial Statements

(1) Consolidated balance sheets

Unit: Millions of yen

	March 31, 2015	December 31, 2015
Assets		
Current assets		
Cash and deposits	18,859	15,675
Notes and accounts receivable - trade	23,132	23,029
Securities	175	208
Merchandise and finished goods	7,781	7,839
Work in process	332	434
Raw materials and supplies	2,846	2,855
Other	3,353	3,669
Allowance for doubtful accounts	(149)	(157)
Total current assets	56,331	53,554
Non-current assets		
Property, plant and equipment		
Machinery, equipment and vehicles, net	7,718	9,959
Land	4,975	5,056
Other, net	8,432	9,817
Total property, plant and equipment	21,126	24,833
Intangible assets		
Goodwill	6,291	5,600
Other	6,468	6,210
Total intangible assets	12,760	11,811
Investments and other assets	4,956	7,230
Total non-current assets	38,843	43,876
Total assets	95,174	97,430
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,067	6,636
Short-term loans payable	3,333	8,752
Accounts payable - other	14,375	13,937
Income taxes payable	1,685	604
Provision	332	358
Other	6,476	5,435
Total current liabilities	33,271	35,724
Non-current liabilities		
Bonds with subscription rights to shares	60	35
Long-term loans payable	2,217	3,080
Net defined benefit liability	2,634	2,552
Other	3,832	4,472
Total non-current liabilities	8,745	10,140
Total liabilities	42,016	45,865

Unit: Millions of yen

	March 31, 2015	December 31, 2015
Net assets		
Shareholders’ equity		
Capital stock	8,438	8,451
Capital surplus	7,897	7,649
Retained earnings	35,946	36,407
Treasury shares	(2,556)	(2,559)
Total shareholders’ equity	49,726	49,948
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2	2
Foreign currency translation adjustment	4,235	1,607
Remeasurements of defined benefit plans	(1,089)	(1,001)
Total accumulated other comprehensive income	3,148	608
Subscription rights to shares	62	91
Non-controlling interests	220	916
Total net assets	53,158	51,565
Total liabilities and net assets	95,174	97,430

(2) Consolidated statements of (comprehensive) income

(Consolidated statements of income)

Unit: Millions of yen

	Nine months ended December 31, 2014	Nine months ended December 31, 2015
Net sales	72,934	78,767
Cost of sales	41,587	45,411
Gross profit	31,346	33,355
Selling, general and administrative expenses	26,416	29,205
Operating income	4,929	4,149
Non-operating income		
Interest income	52	79
Dividend income	0	2
Foreign exchange gains	196	–
Rent income	91	73
Other	224	167
Total non-operating income	565	323
Non-operating expenses		
Interest expenses	106	164
Foreign exchange losses	–	196
Sales discounts	51	49
Other	145	134
Total non-operating expenses	303	545
Ordinary income	5,191	3,927
Extraordinary income		
Gain on sales of non-current assets	666	20
Total extraordinary income	666	20
Extraordinary losses		
Loss on retirement of non-current assets	4	113
Loss on sales of non-current assets	5	17
Restructuring loss	–	94
Impairment loss	443	–
Loss on prior period adjustment	–	12
Total extraordinary losses	453	238
Income before income taxes	5,404	3,709
Income taxes - current	1,556	1,069
Income taxes - deferred	710	397
Total income taxes	2,267	1,466
Profit	3,137	2,242
Profit attributable to non-controlling interests	3	40
Profit attributable to owners of parent	3,134	2,202

(Consolidated statements of comprehensive income)

Unit: Millions of yen

	Nine months ended December 31, 2014	Nine months ended December 31, 2015
Profit	3,137	2,242
Other comprehensive income		
Valuation difference on available-for-sale securities	(36)	(0)
Foreign currency translation adjustment	2,783	(2,829)
Remeasurements of defined benefit plans, net of tax	15	88
Total other comprehensive income	2,761	(2,741)
Comprehensive income	5,899	(498)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	5,894	(337)
Comprehensive income attributable to non-controlling interests	4	(161)

(3) Consolidated statements of cash flows

Unit: Millions of yen

	Nine months ended December 31, 2014	Nine months ended December 31, 2015
Cash flows from operating activities		
Income before income taxes	5,404	3,709
Depreciation	1,818	2,927
Amortization of goodwill	764	890
Impairment loss	443	–
Loss (gain) on sales of non-current assets	(660)	(2)
Loss on retirement of non-current assets	4	113
Loss on business restructuring	–	94
Increase (decrease) in provision	(26)	17
Increase (decrease) in allowance for doubtful accounts	7	23
Increase (decrease) in net defined benefit liability	(63)	(0)
Interest and dividend income	(53)	(82)
Interest expenses	106	164
Foreign exchange losses (gains)	(192)	(287)
Decrease (increase) in notes and accounts receivable - trade	398	(225)
Decrease (increase) in inventories	(905)	(460)
Increase (decrease) in notes and accounts payable - trade	(163)	(254)
Increase (decrease) in accounts payable - other	(989)	134
Other, net	1,244	(1,111)
Subtotal	7,136	5,651
Interest and dividend income received	48	79
Interest expenses paid	(106)	(152)
Payments for business restructuring	–	(94)
Income taxes paid	(1,756)	(2,198)
Net cash provided by (used in) operating activities	5,322	3,285
Cash flows from investing activities		
Payments into time deposits	(248)	(1,543)
Proceeds from withdrawal of time deposits	729	1,419
Purchase of investment securities	–	(2,109)
Purchase of shares of subsidiaries	(233)	–
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(3,066)	(2,753)
Purchase of property, plant and equipment	(1,566)	(3,621)
Proceeds from sales of property, plant and equipment	4,035	98
Purchase of intangible assets	(3,128)	(641)
Payments for transfer of business	–	(176)
Other, net	161	(235)
Net cash provided by (used in) investing activities	(3,316)	(9,563)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(73)	5,397
Proceeds from long-term loans payable	0	1,032
Repayments of long-term loans payable	(26)	(199)
Repayments of lease obligations	(425)	(1,104)
Cash dividends paid	(1,370)	(1,737)
Other, net	12	64
Net cash provided by (used in) financing activities	(1,883)	3,452
Effect of exchange rate change on cash and cash equivalents	827	(354)
Net increase (decrease) in cash and cash equivalents	948	(3,179)
Cash and cash equivalents at beginning of period	16,763	17,145
Cash and cash equivalents at end of period	17,712	13,966

(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, 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

II. Nine months ended December 31, 2015 (from April 1, 2015 to December 31, 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	49,241	8,789	10,196	10,540	78,767
Intersegment sales and transfer	4,295	35	238	6,009	10,579
Total	53,536	8,824	10,434	16,550	89,346
Segment profit	2,147	242	685	1,199	4,274

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	4,274
Intersegment eliminations	1
Amortization of goodwill	(42)
Adjustment of inventories	(82)
Other adjustment	(0)
Operating income on the consolidated statements of income	4,149

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.

In the “Americas” segment, provisionally calculated goodwill of ¥2,088 million was recorded in line with the acquisition of shares in Prakolar Rótulos Auto-Adesivos S.A. during the nine months under review.