Consolidated Financial Report for the March 2016 Term
<Under Japanese GAAP>

May 10, 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
Date of Ordinary General Meeting of Shareholders:	June 21, 2016
Date of commencement of dividend payments:	June 22, 2016
Scheduled submission date for annual securities report:	June 22, 2016
Supplementary explanatory materials for financial results:	Available

Holding of meeting to explain financial results (for analysts and institutional investors): Yes

(In millions of yen, with fractional amounts discarded)

1. Consolidated operating results for the fiscal year ended March 31, 2016 (from April 1, 2015 to March 31, 2016)

(1) Consolidated financial results

(Percentage figures show year-on-year change.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
Fiscal year ended	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
March 31, 2016	105,504	5.7	6,457	(13.3)	6,121	(18.2)	3,689	(2.0)
March 31, 2015	99,831	3.2	7,444	10.1	7,484	5.6	3,763	(12.4)

(Note) Comprehensive income: Fiscal year ended March 31, 2016: ¥49 million (-99.1%)
Fiscal year ended March 31, 2015: ¥5,556 million (14.2%)

	Basic earnings per share	Diluted earnings per share	Return on equity ratio	Ratio of ordinary income to total asset	Ratio of operating income to net sales
Fiscal year ended	(Yen)	(Yen)	(%)	(%)	(%)
March 31, 2016	110.12	109.91	7.1	6.4	6.1
March 31, 2015	113.96	111.90	7.6	8.2	7.5

(N.B.) Equity in earnings or losses of affiliates: Fiscal year ended March 31, 2016: –
Fiscal year ended March 31, 2015: –

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	(Millions of yen)	(Millions of yen)	%	(Yen)
March 31, 2016	96,743	52,157	52.8	1,525.14
March 31, 2015	95,174	53,158	55.6	1,579.15

(N.B.) Total equity:

As of March 31, 2016: ¥51,127 million As of March 31, 2015: ¥52,875 million

(3) Consolidated cash flows statement

	Net cash provided by (used in) operating activities	Net cash provided by (used in) investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at end of period
Fiscal year ended	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
March 31, 2016	6,091	(9,596)	3,254	16,212
March 31, 2015	9,205	(6,221)	(3,062)	17,145

2. Dividends

	Annual dividend per share					Total dividends paid (total)	Dividend payout ratio (consolidated)	Dividend to net assets (consolidated)
	First quarter	Second quarter	Third quarter	Year-end	Total			
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)	(Millions of yen)	%	%
March 31, 2015	–	20.00	–	25.00	45.00	1,506	39.5	3.0
March 31, 2016	–	27.00	–	28.00	55.00	1,843	49.9	3.5
March 31, 2017 (Forecast)	–	30.00	–	30.00	60.00		40.2	

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	149.15

*** Notes**

(1) Changes in significant subsidiaries during the term (changes in specified subsidiaries resulting in the change in scope of consolidation): None

(2) 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

(3) Number of issued shares (common shares)

1) Number of issued shares at the end of term (including treasury shares):

As of March 31, 2016:	34,921,242 shares
As of March 31, 2015:	34,880,259 shares

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

As of March 31, 2016:	1,397,962 shares
As of March 31, 2015:	1,396,867 shares

3) Average number of shares during the term

Fiscal year ended March 31, 2016:	33,502,111 shares
Fiscal year ended March 31, 2015:	33,021,597 shares

*** Indication about carrying-out of the audit procedures**

This financial report is not subject to the audit procedures based on the Financial Instruments and Exchange Act of Japan. At the time of disclosure of this financial report, the audit procedures for 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 4 of the attached materials to the 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. Analysis of Financial Performance and Financial Position

(1) Analysis of financial performance

(Financial performance during the fiscal year ended March 31, 2016)

The SATO Group has launched its 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 long-term basic strategy to "pursue globalization and maximization of customer value." (The Medium-term Management Plan was partially changed in FY2016. For an overview of this plan, please see "3. Management Policies.")

Various measures taken this fiscal year resulted in highest sales in company history, although profits were down year on year. Operating income decreased in Japan due 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 income saw double-digit increases over the previous year, both recording historic highs.

As a result, the SATO Group recorded an increase in net sales, up 5.7% from the previous fiscal year to ¥105,504 million and a decrease in operating income, down 13.3% to ¥6,457 million. Ordinary income decreased by 18.2% to ¥6,121 million, and profit attributable to owners of parent decreased by 2.0% to ¥3,689 million.

By segment, the SATO Group reported the following:

<Japan>

In the Japanese market, we offered new end-use applications primarily targeting growth markets such as the e-commerce sector in the logistics industry to create demand for mechatronics products. Also, in August 2015, the SATO Group launched CL4NX-J/CL6NX-J, the Japanese versions of its strategic CL4NX/CL6NX barcode printers that were released for sales outside Japan last fiscal year, and recorded increasing sales volume toward year-end. However, due to delays in closing some deals as planned, overall sales of mechatronics products were down year on year. Net sales of supply products, which was recovering to show a year-on-year increase in the second half, fell short of prior-year levels due to persistently sluggish demand, primarily in the retail industry. Operating income was markedly lower than in the previous fiscal year due to a combination of factors that included increased overseas production procurement costs due to the ongoing weakening of the yen, a rise in depreciation expenses in line with the renewal of core in-house systems and the recognizing of onetime personnel expenses.

Under these circumstances, net sales decreased 0.8% to ¥66,124 million and operating income fell 28.2% to ¥3,806 million, compared to the previous fiscal year.

<Americas>

In the North American market, sales increased year on year as large-scale business deals (including OEM project in food product management and project with major drug store) due in the fourth quarter were realized as planned. On the other hand, operating income in the region declined due in part to delayed returns from SATO Global Solutions (SGS) which was 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 regional sales and operating income exceed targets. South America's operating results also include 3-month contributions from Brazilian leading primary label producer Prakolar Rotulos Auto-Adesivos S.A., which we acquired in November 2015.

Under these circumstances, net sales rose 16.5% to ¥12,625 million (a rise of 11.7%, however, excluding foreign currency effects), while operating income fell 36.4% to ¥465 million, compared to 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. 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 50.0% to ¥13,101 million (a rise of 51.5%, however, excluding foreign currency effects) and operating income rose 66.4% to ¥836 million, compared to 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 reduction efforts at our printer manufacturing plants in Malaysia and Vietnam progressed as planned, their effects were overshadowed by year-on-year declines in sales recorded at sales subsidiaries in China, Singapore, Malaysia, and Taiwan's Argox Information Co., Ltd.

Under these circumstances, net sales rose 0.5% to ¥13,652 million (a rise of 0.3%, however, excluding foreign currency effects), and operating income rose 1.5% to ¥1,309 million, compared to the previous fiscal year.

(Forecasts for the next fiscal year)

Globally, while the United States economy is expected to pick up pace, there is unease over the downturn in the European and Chinese economies, and some emerging countries are also showing trends of economic slowdown. In Japan, the economic outlook is likely to remain uncertain amid strengthening yen and other concerns. Operating under this environment, the SATO Group will continue to pursue its long-term basic strategy to "pursue globalization and maximization of customer value," and aim to establish sustainable growth and profit with its new 5-year Medium-term Management Plan beginning in the fiscal year ending March 31, 2017. (For an overview of this plan, please see "3. Management Policies.")

In light of the above, our consolidated forecasts for the fiscal year ending March 31, 2017 are as follows.

Net sales	¥113,000 million	(increase by 7.1% year on year)
Operating income	¥8,000 million	(increase by 23.9% year on year)
Ordinary income	¥7,900 million	(increase by 29.1% year on year)
Profit attributable to owners of parent	¥5,000 million	(increase by 35.5% year on year)

The average foreign exchange rates during the period assumed in the above forecast are US$1 = ¥110 and €1 = ¥125.

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) Analysis of financial position

a. Assets, liabilities and net assets

At the end of the fiscal year under review, the balance of current assets was ¥54,235 million, a decrease of ¥2,095 million (¥56,331 million recorded at the end of the previous fiscal year). This was primarily the result of decreases in cash and deposits of ¥1,003 million, notes and accounts receivable - trade of ¥671 million and merchandise and finished goods of ¥516 million. The balance of non-current assets was ¥42,508 million (¥38,843 million at the end of the previous fiscal year), an increase of ¥3,664 million. This was primarily the result of increases in property, plant and equipment of ¥3,727 million and investment securities of ¥1,991 million, as well as a decrease of ¥1,975 million in intangible assets.

The balance of current liabilities was ¥33,750 million (¥33,271 million at the end of the previous fiscal year), an increase of ¥478 million. This was primarily the result of an increase in short-term loans payable of ¥4,450 million, as well as decreases in accounts payable - other of ¥1,321 million and notes and accounts payable - trade of ¥591 million. The balance of non-current liabilities was ¥10,836 million (¥8,745 million at the end of the previous fiscal year), an increase of ¥2,091 million. This was mainly due to an increase of ¥1,717 million in long-term loans payable.

The balance of net assets at the end of the fiscal year under review was ¥52,157 million (¥53,158 million at the end of the previous fiscal year), a decrease of ¥1,000 million. This was primarily due to a decrease of ¥3,924 million in foreign currency translation adjustment.

b. Cash flows

At the end of the fiscal year under review, cash and cash equivalents (referred to below as “cash”) stood at ¥16,212 million, a decrease of ¥933 million compared to the end of the previous fiscal year.

The major cash flow-related factors for the fiscal year ended March 31, 2016 are outlined below.

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥6,091 million.

This resulted primarily from a ¥627 million decrease in accounts payable - other and ¥2,293 million of income taxes paid, as well as ¥5,888 million of profit before income taxes, ¥3,941 million for depreciation and ¥1,175 million for amortization of goodwill, the latter two being non-cash items.

Cash flows from investing activities

Net cash used in investing activities totaled ¥9,596 million.

This resulted primarily from expenditures of ¥3,849 million for purchase of property, plant and equipment, ¥2,102 million for purchase of investment securities, and ¥2,763 million for purchase of shares of subsidiaries resulting in change in scope of consolidation.

Cash flows from financing activities

Net cash provided by financing activities amounted to ¥3,254 million.

This resulted primarily from a ¥4,456 million increase in short-term loans payable and ¥1,980 million proceeds from long-term loans payable, as well as ¥1,740 million of cash dividends paid and ¥1,241 million for repayments of lease obligations.

Trend in cash flow indices

Fiscal year ended	March 31, 2013	March 31, 2014	March 31, 2015	March 31, 2016
Equity ratio (%)	51.7	53.7	55.9	52.9
Equity ratio based on market value (%)	65.8	88.3	95.9	83.0
Ratio of cash flow to interest-bearing debt (%)	210.1	82.5	106.9	264.6
Interest-coverage ratio (times)	32.9	78.5	43.5	32.9

(Notes)

The equity ratio is equal to shareholders' equity divided by total assets.

The equity ratio based on market value is equal to total stock market capitalization divided by total assets.

The ratio of cash flow to interest-bearing debt is equal to interest-bearing debts divided by operating cash flow.

The interest-coverage ratio is equal to operating cash flow divided by interest payments.

* All of the above indicators are calculated on a consolidated basis.

* Total stock market capitalization is calculated by multiplying the closing share price on the final trading day of the fiscal year by the number of issued shares (excluding treasury shares) as of the corresponding fiscal year-end.

* Operating cash flow equals total net cash flows provided by operating activities as stated in the consolidated statements of cash flows. Interest-bearing debts include all debts on which interest is paid, as stated in the consolidated balance sheets. Interest payments are equal to interest paid as stated in the consolidated statements of cash flows.

(3) Policy regarding the distribution of profits and dividends

The Company's fundamental policy regarding distribution of profits is to provide four-way returns to our stakeholders: shareholders, employees, society, and the Company. The Company decides the distribution of profits based on the basic principles of ensuring stable and continuous dividends while retaining internal reserves for future business expansion, comprehensively considering business performance and climate.

Based on the above policy, the Company will pay a year-end dividend of ¥28 per share for the fiscal year ended March 31, 2016. Combined with the interim dividend of ¥27 per share that has already been paid, this amounts to total dividends of ¥55 per share for the fiscal year ended March 31, 2016, an increase of ¥10 per share compared with the previous fiscal year.

We plan to raise this matter for approval at the Annual General Meeting of Shareholders to be held in June 2016.

As for total dividends for the fiscal year ending March 31, 2017, we plan to pay ¥60 per share, consisting of an interim dividend of ¥30 and a year-end dividend of ¥30.

(4) Risk factors

a. Business in Japan

The SATO Group operates its business by providing customers with optimal solutions based on auto-identification technologies such as barcodes, 2D codes and RFID, integrally combining mechatronic products, supply products, and software applications. Since the SATO Group operates primarily in the supply products business in a broad range of industries including not only distribution and retail, but also manufacturing, transportation, medical, and food processing, the Group is resistant to the effects of economic trends. Nevertheless, in order to accumulate the know-how and create the sales tools to provide the value-added aspect required in a solutions-based business, we must allocate a large portion of operating revenues to selling, general and administrative expenses. A sudden drop in net sales due to broad-reaching and severe downturn in the economy could significantly affect the Group's financial results.

b. Business overseas

The SATO Group possesses multiple production and sales subsidiaries in various regions including the Americas, Europe, Asia and Oceania. In conducting business in these overseas markets, the Group exposes itself to the following risks.

(a) Unexpected changes in laws and regulations.

(b) Occurrence of unexpected political or economic factors.

(c) Changes to the tax system or tax rate which have adverse effect.

(d) Social turmoil, etc. caused by terrorist attacks, wars, natural disasters, infectious disease epidemics, or by other factors.

Any of the above events could significantly affect the Group's financial results.

c. Currency fluctuations

The SATO Group carries out manufacturing and sales on a global scale and conducts transactions between the Company and overseas subsidiaries in multiple foreign currencies. A considerable currency fluctuation could significantly affect the Group's product competitiveness, profitability and other aspects of its financial results.

d. Intellectual property rights

The SATO Group conducts surveys and negotiations to avoid trouble with respect to intellectual property rights, and proactively pursues the acquisition of intellectual property rights. At present, there are no cases of the Group breaching the intellectual property rights of a third party. There is a risk, however, that in the future, the Group could be involved in a legal suit. A situation whereby the Group is disadvantaged by such a legal suit could significantly affect the Group's financial results.

e. Procurement of raw materials, etc.

The SATO Group procures raw materials and parts from numerous external sources. If the Group is unable to obtain these at the planned quantity or price due to any reason and fails to reduce costs or pass on that extra cost to the price of the finished product, such a situation could significantly affect the Group's financial results.

f. Disposal or loss on valuation of inventories

The SATO Group pays adequate attention to quality, environmental standards and inventory management for its finished products and parts. However, if it becomes necessary to revise the values of finished products and work in process because of sudden changes in market trends, technological innovation, or the product lifecycle, and if inventories are disposed of or loss on valuation is recorded on them, such a situation could significantly affect the Group's financial results.

2. Group Organization

The SATO Group is a corporate group with the Company at the center, being involved primarily in the production and sales of electronic printers, hand labelers and other related mechatronic products, as well as supply products including RFID tags/labels, stickers, labels, tags, tickets, ribbons, and MC-cards.

All fifty-nine subsidiaries involved in the Company's business are consolidated subsidiaries and their roles and business segment information are as shown below.

Segment	Companies and Subsidiary Companies	Role
Japan	SATO HOLDINGS CORPORATION	Management strategy development, business administration for the Group and asset leasing, etc.
	SATO CORPORATION	Sales of mechatronic products and supply products
	SATO HEALTHCARE CO., LTD	Development and provision of solutions for the healthcare industry, sales of mechatronic products and supply products.
	SATO ADVANCE CORPORATION	Sales of mechatronic products and supply products
	SATO GREEN ENGINEERING CO., LTD.	Development of uses of nano vesicle capsule (CO2 absorbent) technology in non-label applications, and development of ecology business
	SATO RFID SOLUTIONS CO., LTD.	Design, development and sales of RFID related products and solutions utilizing RFID
	SATO MATERIAL CO., LTD.	Production and sales of industrial rubber products, synthetic resin and RFID tags/labels
	SATO PRINTING TECHNOLOGY CENTER CO., LTD.	Development and production of base materials, production of supply products
	SATO IMPRESS CO., LTD.	Production and sales of supply products
	SATO TECHNOLOGY CO., LTD.	Development, design and production of mechatronic products
	SATO PRIMARY LABEL INTERNATIONAL CO., LTD.	Support for overseas sales expansion of supply products, and design and development of value-added products
	SATO INTERNATIONAL CO., LTD.	Central management of the Group's global business operations
	SATO SOLUTION ARCHITECTS CO., LTD.	Consulting services to streamline and improve work processes, development and provision of information systems
	DESIGN PROMOTION CO., LTD.	Services to design and produce product packaging
	SPECIALASE LTD.	Development and sales of products utilizing DataLase heat-sensitive pigments
	EIGA CO., LTD.	Development and production of RFID tags and labels
Americas	SATO GLOBAL SOLUTIONS, INC. (U.S.A.)	Auto-identification SI (solutions integration) business and systems development
	SATO AMERICA, LLC. (U.S.A.)	Production and sales of supply products, sales of mechatronic products
	SATO AUTO-ID DO BRASIL LTDA. (Brazil)	
	ACHERNAR S. A. (Argentina)	
	SATO ARGENTINA S. A. (Argentina)	Sales of supply products and mechatronic products
	PRAKOLAR RŌTULOS AUTO-ADESIVOS S.A. (Brazil)	Production and sales of primary label products
Europe	SATO UK LTD. (U.K.)	Production and sales of supply products, sales of mechatronic products
	SATO FRANCE S. A. S. (France)	
	SATO EUROPE GmbH (Germany)	Sales of supply products and mechatronic products
	SATO LABELLING POLAND SP. Z O. O. (Poland)	Production of supply products
	SATO TECHNO LAB EUROPE AB (Sweden)	Development of mechatronic products, support for technology and business development
	OKIL-HOLDING, JSC (Russia)	Production and sales of supply products.

Segment	Companies and Subsidiary Companies	Role
Asia and Oceania	SATO GLOBAL BUSINESS SERVICES PTE. LTD. (Singapore)	Regional administration
	SATO ASIA PACIFIC PTE. LTD. (Singapore)	Production and sales of supply products, sales of mechatronic products
	SATO AUTO-ID (THAILAND) CO., LTD. (Thailand)	
	SATO AUSTRALIA PTY LTD. (Australia)	
	SATO NEW ZEALAND LTD. (New Zealand)	
	PT. SATO NAGATOMI (Indonesia)	
	SATO AUTO-ID MALAYSIA SDN. BHD. (Malaysia)	Sales of supply products and mechatronic products
	SATO SHANGHAI CO., LTD. (China)	
	SATO AUTO-ID INDIA PVT. LTD. (India)	
	SATO VIETNAM SOLUTIONS CO., LTD. (Vietnam)	
	SATO MALAYSIA ELECTRONICS MANUFACTURING SDN. BHD. (Malaysia)	Production of mechatronic products
	SATO VIETNAM CO., LTD. (Vietnam)	
	WUXI SONGXING ELECTRONIC COMPONENTS CO., LTD. (China)	Production of supply products and mechatronic products
	ARGOX INFORMATION CO., LTD. (Taiwan)	Production and sales of mechatronic products
	SATO VICINITY PTY LTD. (Australia)	Development, production and sales of RFID products and RFID supply products
	PT. SATO LABEL SOLUTIONS (Indonesia)	Production and sales of supply products

(Note) SATO RFID SOLUTIONS CO., LTD. was dissolved on April 28, 2016.

The SATO Group's main products are as follows.

Business	Main products and services
Mechatronic products	Electronic printers, labeling robots, automatic labelers, one line hand labelers, multiline hand labelers, software, maintenance services
Supply products	Labels/tags for electronic printers, labels for hand labelers, RFID tags/labels, stickers, tickets, ribbons, MC-cards

3. Management Policies

(1) Fundamental policy

Operating under the slogan of pursuing “Ceaseless Creativity for a Sustainable World,” the SATO Group envisions to become the leader in the auto-identification solutions industry worldwide and the world’s most trusted company by dedicating itself to offering solutions that create value across the domains of precision, labor and resource savings, peace of mind and environmental protection, while seeking to expand the overall scale of its business at the same time.

(2) Management indices

The SATO Group has created a new FY2016-FY2020 Medium-term Management Plan by partially revising the FY2015-FY2017 Medium-term Management Plan enacted last year. Under this new 5-year plan, we have set ourselves three key aspirations, all driven by the same long-term basic strategy that underpinned the previous medium-term management plan—namely, globalization and maximization of customer value—and the same management objectives of establishing sustainable growth and profit. The new Medium-term Management Plan will also, in principle, inherit the same seven basic strategies from the previous plan.

1. Pursuing higher profit and capital productivity

Taking into account the results of the fiscal year under review and the current situation, we have maintained our FY2020 operating income target at ¥18.0 billion in the new Medium-term Management Plan and shifted the target year to realize ¥12.0 billion operating income one year backward from FY2017 as listed in the previous plan to FY2018, setting the 3-year span from FY2016 to FY2018 as a period to strengthen our foothold for business growth toward FY2020. We have also increased our ROE target for FY2020 from 12% to 16%.

Besides increasing profitability through launching new products, strengthening solutions capabilities in our base business, establishing a stable, high-profiting supply business, and expanding new businesses, we are committed to driving cost reductions, increasing overall management efficiency, and optimizing supply chain management throughout the Group so as to achieve a business model that generates profit and improves capital productivity.

2. Expanding overseas business

Our overseas base business presents huge growth potential compared to Japan as there are still undeveloped markets and applications for the SATO Group both in developed and emerging countries. In December 2014, we established SATO International Co., Ltd. to craft and execute global strategies, optimize global operations, and ensure that customers worldwide receive a high standard of service. We are also steadily expanding our overseas primary label business through M&A for example, and have succeeded in increasing our overseas sales ratio from 23% to 37% in the four years since the formulation of the FY2012-FY2014 Medium-term Management Plan.

We have set our overseas sales ratio goal for the fiscal year ending March 31, 2021 to 50%. Ultimately, we aim to achieve an overseas sales ratio of 70%, tapping into overseas markets that demonstrate strong growth potential.

3. Establishing a unique positioning

The top strategic priority of our new Medium-Term Management Plan is to create a unique positioning for the SATO Group within the industry.

Recent years have seen our society transforming to a world of IoT*[1] where everything can be connected to the Internet. The movements and information of people and things in the real world can be sent to the Internet and stored as data that, when collected in large quantities, can be analyzed and used towards improving how people and things operate and interact with their environment.

These IT innovations can help different industries optimize various aspects of their operations from manufacturing to distribution and sales, thereby improving productivity/quality and ensuring peace of mind. Going forward, it is anticipated that more of such benefits will be realized over time.

That said, the physical work of tagging objects with identifier information and linking them accurately to IT systems is required for a world like that to function seamlessly. By making the most of our core competency in hands-on problem-solving, or what we refer to as *Genbaryoku*, the SATO Group seeks to become the only global company that is capable of filling in “The Last Inch” connecting the virtual (IT) and physical (people/things) with data.

The Group will also prioritize problem-solving for customers by readily looking beyond our own resources and interests to engage in partnerships where possible, in our bid to become the leading provider of auto-identification solutions worldwide.

*[1]: IoT: Internet of Things

With an emphasis on operating income and operating income-to-net sales ratio (operating income ratio) as our financial key performance indicators, we will strive to improve our capital productivity as measured by return on equity (ROE) to increase market value per share.

Under the FY2016-FY2020 Medium-term Management Plan, the SATO Group aims to achieve consolidated sales of ¥130.0 billion, consolidated operating income of ¥12.0 billion, operating income ratio of 9.2%, EBITDA*[2] of ¥17.3 billion, ROE of 12%, and overseas sales ratio of 45% by the fiscal year ending March 31, 2019, and subsequently, consolidated sales of ¥150.0 billion, consolidated operating income of ¥18.0 billion, operating income ratio of 12%, EBITDA of ¥22.0 billion, ROE of 16%, and overseas sales ratio of 50% by the fiscal year ending March 31, 2021.

*[2]: EBITDA=operating income + depreciation + amortization of goodwill

(3) Medium- to long-term management strategy and issues requiring action

We have devised seven strategies as outlined below to achieve the identified performance targets, and will endeavor to implement them with a sense of urgency.

Strategy 1: Create a new growth and profit model for Japan by strengthening the Group's auto-ID solutions capabilities and base business, while at the same time shifting resources to growing sectors and new domains

Strategy 2: Strengthen business outside Japan and rapidly expand in emerging markets, setting a target overseas sales ratio of 70% over the long term

Strategy 3: Pursue customer-centric innovations to create new core businesses

Strategy 4: Develop new solutions business focused on software and consulting services

Strategy 5: Deliver one-stop RFID solutions

Strategy 6: Expand green businesses with speed globally

Strategy 7: Improve group management through productivity measures and optimization of global supply chain management to operate with greater speed and cost effectiveness to support the execution of Strategies 1 to 6

4. Our Basic Stance regarding Selection of Accounting Standards

As a result of convergence with international accounting standards, Japanese accounting standards are now of high quality and internationally competitive. As Europe has accepted Japanese GAAP as equivalent to International Financial Reporting Standards (IFRSs), the SATO Group chooses to use J-GAAP as its accounting standard.

With regard to future adoption of IFRSs, the Group will give due consideration to domestic and international circumstances and take action accordingly.

5. Consolidated Financial Statements

(1) Consolidated balance sheets

Unit: Millions of yen

	March 31, 2015	March 31, 2016
Assets		
Current assets		
Cash and deposits	18,859	17,856
Notes and accounts receivable - trade	23,132	22,460
Securities	175	187
Merchandise and finished goods	7,781	7,264
Work in process	332	422
Raw materials and supplies	2,846	2,795
Accounts receivable - other	1,061	1,563
Deferred tax assets	872	738
Other	1,419	1,086
Allowance for doubtful accounts	(149)	(139)
Total current assets	56,331	54,235
Non-current assets		
Property, plant and equipment		
Buildings and structures	10,644	12,247
Accumulated depreciation	(5,646)	(5,827)
Buildings and structures, net	4,998	6,420
Machinery, equipment and vehicles	19,867	22,919
Accumulated depreciation	(12,148)	(12,773)
Machinery, equipment and vehicles, net	7,718	10,146
Tools, furniture and fixtures	6,561	6,657
Accumulated depreciation	(4,766)	(5,145)
Tools, furniture and fixtures, net	1,794	1,511
Land	4,975	5,440
Construction in progress	1,639	1,335
Total property, plant and equipment	21,126	24,853
Intangible assets		
Goodwill	6,291	4,546
Software	993	4,877
Leasehold right	192	167
Other	5,283	1,193
Total intangible assets	12,760	10,784
Investments and other assets		
Investment securities	1,456	3,448
Long-term loans receivable	265	371
Guarantee deposits	650	626
Deferred tax assets	1,251	1,035
Net defined benefit asset	4	2
Other	1,731	1,800
Allowance for doubtful accounts	(403)	(414)
Total investments and other assets	4,956	6,869
Total non-current assets	38,843	42,508
Total assets	95,174	96,743

Unit: Millions of yen

	March 31, 2015	March 31, 2016
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,067	6,475
Short-term loans payable	3,333	7,783
Lease obligations	845	676
Accounts payable - other	14,375	13,054
Income taxes payable	1,685	947
Provision for bonuses	285	269
Provision for product warranties	46	117
Other	5,631	4,425
Total current liabilities	33,271	33,750
Non-current liabilities		
Bonds with subscription rights to shares	60	-
Long-term loans payable	2,217	3,935
Lease obligations	3,301	3,573
Net defined benefit liability	2,634	2,212
Other	531	1,116
Total non-current liabilities	8,745	10,836
Total liabilities	42,016	44,586
Net assets		
Shareholders' equity		
Capital stock	8,438	8,468
Capital surplus	7,897	7,666
Retained earnings	35,946	37,894
Treasury shares	(2,556)	(2,559)
Total shareholders' equity	49,726	51,470
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2	1
Foreign currency translation adjustment	4,235	310
Remeasurements of defined benefit plans	(1,089)	(654)
Total accumulated other comprehensive income	3,148	(342)
Subscription rights to shares	62	100
Non-controlling interests	220	928
Total net assets	53,158	52,157
Total liabilities and net assets	95,174	96,743

(2) Consolidated statements of (comprehensive) income

(Consolidated statements of income)

Unit: Millions of yen

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Net sales	99,831	105,504
Cost of sales	57,122	60,562
Gross profit	42,708	44,942
Selling, general and administrative expenses	35,264	38,485
Operating income	7,444	6,457
Non-operating income		
Interest income	74	118
Dividend income	7	14
Purchase discounts	22	28
Rent income	118	154
Foreign exchange gains	76	–
Other	267	170
Total non-operating income	567	488
Non-operating expenses		
Interest expenses	209	201
Sales discounts	70	65
Foreign exchange losses	–	350
Other	247	206
Total non-operating expenses	527	824
Ordinary income	7,484	6,121
Extraordinary income		
Gain on sales of non-current assets	730	21
Gain on reversal of subscription rights to shares	15	–
Total extraordinary income	746	21
Extraordinary losses		
Loss on sales of non-current assets	9	9
Loss on retirement of non-current assets	6	125
Impairment loss	443	–
Restructuring loss	–	106
Loss on prior period adjustment	–	12
Total extraordinary losses	459	254
Profit before income taxes	7,770	5,888
Income taxes - current	2,439	1,701
Income taxes for prior periods	204	–
Income taxes - deferred	1,335	432
Total income taxes	3,980	2,134
Profit	3,790	3,754
Profit attributable to non-controlling interests	27	65
Profit attributable to owners of parent	3,763	3,689

(Consolidated statements of comprehensive income)

Unit: Millions of yen

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Profit	3,790	3,754
Other comprehensive income		
Valuation difference on available-for-sale securities	(35)	(1)
Foreign currency translation adjustment	2,340	(4,139)
Remeasurements of defined benefit plans, net of tax	(539)	435
Total other comprehensive income	1,765	(3,705)
Comprehensive income	5,556	49
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	5,521	198
Comprehensive income attributable to non-controlling interests	35	(149)

(3) Consolidated statements of changes in equity

Fiscal year ended March 31, 2015

Unit: Millions of yen

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	7,361	6,819	33,557	(2,556)	45,181
Changes of items during period					
Issuance of new shares - exercise of subscription rights to shares	1,077	1,077			2,155
Dividends of surplus			(1,373)		(1,373)
Profit attributable to owners of parent			3,763		3,763
Purchase of treasury shares				(3)	(3)
Disposal of treasury shares			(0)	4	3
Net changes of items other than shareholders' equity					
Total changes of items during period	1,077	1,077	2,389	0	4,545
Balance at end of current period	8,438	7,897	35,946	(2,556)	49,726

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	38	1,902	(550)	1,390	25	136	46,734
Changes of items during period							
Issuance of new shares - exercise of subscription rights to shares							2,155
Dividends of surplus							(1,373)
Profit attributable to owners of parent							3,763
Purchase of treasury shares							(3)
Disposal of treasury shares							3
Net changes of items other than shareholders' equity	(35)	2,332	(539)	1,757	36	83	1,878
Total changes of items during period	(35)	2,332	(539)	1,757	36	83	6,423
Balance at end of current period	2	4,235	(1,089)	3,148	62	220	53,158

Fiscal year ended March 31, 2016

Unit: Millions of yen

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	8,438	7,897	35,946	(2,556)	49,726
Changes of items during period					
Issuance of new shares - exercise of subscription rights to shares	30	30			60
Capital increase of consolidated subsidiaries		(261)			(261)
Transfer to capital surplus from retained earnings		0	(0)		-
Dividends of surplus			(1,741)		(1,741)
Profit attributable to owners of parent			3,689		3,689
Purchase of treasury shares				(3)	(3)
Net changes of items other than shareholders' equity					
Total changes of items during period	30	(230)	1,947	(3)	1,743
Balance at end of current period	8,468	7,666	37,894	(2,559)	51,470

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	2	4,235	(1,089)	3,148	62	220	53,158
Changes of items during period							
Issuance of new shares - exercise of subscription rights to shares							60
Capital increase of consolidated subsidiaries							(261)
Transfer to capital surplus from retained earnings							-
Dividends of surplus							(1,741)
Profit attributable to owners of parent							3,689
Purchase of treasury shares							(3)
Net changes of items other than shareholders' equity	(1)	(3,924)	435	(3,490)	38	708	(2,744)
Total changes of items during period	(1)	(3,924)	435	(3,490)	38	708	(1,000)
Balance at end of current period	1	310	(654)	(342)	100	928	52,157

(4) Consolidated statements of cash flows

Unit: Millions of yen

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Cash flows from operating activities		
Profit before income taxes	7,770	5,888
Depreciation	2,500	3,941
Amortization of goodwill	1,099	1,175
Impairment loss	443	-
Loss (gain) on sales of non-current assets	(720)	(12)
Loss on retirement of non-current assets	6	125
Loss on business restructuring	-	106
Increase (decrease) in allowance for doubtful accounts	(44)	13
Increase (decrease) in provision for bonuses	36	6
Increase (decrease) in net defined benefit liability	(58)	1
Increase (decrease) in provision for directors' bonuses	(42)	-
Interest and dividend income	(81)	(133)
Interest expenses	209	201
Foreign exchange losses (gains)	(232)	(160)
Decrease (increase) in notes and accounts receivable - trade	801	66
Decrease (increase) in inventories	(411)	(186)
Decrease (increase) in accounts receivable - other	409	(474)
Increase (decrease) in notes and accounts payable - trade	(259)	(363)
Increase (decrease) in accounts payable - other	(1,148)	(627)
Other, net	997	(1,023)
Subtotal	11,274	8,545
Interest and dividend income received	75	130
Interest expenses paid	(211)	(185)
Payments for business restructuring	-	(106)
Income taxes paid	(1,933)	(2,293)
Net cash provided by (used in) operating activities	9,205	6,091

Unit: Millions of yen

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Cash flows from investing activities		
Payments into time deposits	(1,614)	(1,682)
Proceeds from withdrawal of time deposits	950	1,551
Purchase of investment securities	-	(2,102)
Purchase of shares of subsidiaries	(233)	-
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(3,092)	(2,763)
Purchase of property, plant and equipment	(2,583)	(3,849)
Proceeds from sales of property, plant and equipment	4,310	183
Purchase of intangible assets	(4,027)	(869)
Payments for transfer of business	-	(173)
Other, net	68	109
Net cash provided by (used in) investing activities	(6,221)	(9,596)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(73)	4,456
Proceeds from long-term loans payable	0	1,980
Repayments of long-term loans payable	(1,027)	(265)
Purchase of treasury shares	(3)	(3)
Repayments of lease obligations	(601)	(1,241)
Cash dividends paid	(1,372)	(1,740)
Other, net	15	68
Net cash provided by (used in) financing activities	(3,062)	3,254
Effect of exchange rate change on cash and cash equivalents	459	(682)
Net increase (decrease) in cash and cash equivalents	381	(933)
Cash and cash equivalents at beginning of period	16,763	17,145
Cash and cash equivalents at end of period	17,145	16,212

(5) Notes to consolidated financial statements

[Segment information]

1. Overview of reportable segments

   The reportable segments of SATO HOLDINGS CORPORATION are constituent units of the Company whose separate financial information is obtainable. These segments are periodically examined by the Board of Directors with the purposes of deciding the allocation of management resources and evaluating operating results.

   By freely using auto-identification technology both inside Japan and overseas, the SATO Group has continued to develop its unique business model of "DCS & Labeling." It has adapted this model to meet the specific characteristics of each region, and operates its business by conducting the manufacturing and sales of mechatronic and supply products, as well as providing software and maintenance services to its users.

   Under the current organizational system, the Company, situated in Japan, leads and manages all regions by providing management guidance together with strategies for production and sales to its local subsidiary companies, and its overseas subsidiaries through our regional headquarters in the Americas, Europe, Asia and Oceania.

   Accordingly, the Company makes its reportable segments the following four geographic regions: Japan, Americas (mainly U.S.A.), Europe (mainly U.K., Germany, and Russia), and Asia and Oceania (mainly Singapore and Malaysia). Each of these segments forms a regional base with a separate production and sales system.

2. Computation method for net sales, profit or loss, assets, liabilities, and other item amounts by reportable segment

   The method of accounting by reportable segment is largely the same as the method of accounting used for the preparation of consolidated financial statements.

   The income stated in the reportable segments is a figure based on operating income.

   Intersegment income and transfer figures are based on consideration of prevailing market prices.

3. Information on net sales, profit or loss, assets, liabilities and other item amounts by reportable segment

Fiscal year ended March 31, 2015 (from April 1, 2014 to March 31, 2015)

Unit: Millions of yen

	Japan	Americas	Europe	Asia and Oceania	Total
Net sales					
External customer sales	66,674	10,839	8,736	13,580	99,831
Intersegment sales and transfer	6,344	142	345	8,235	15,067
Total	73,019	10,981	9,082	21,815	114,898
Segment profit	5,303	731	502	1,289	7,827
Segment assets	79,206	9,215	12,936	22,027	123,386
Other items					
Depreciation	1,462	205	195	636	2,500
Amount of increases in property, plant and equipment and intangible assets	5,343	306	2,876	1,658	10,184

Fiscal year ended March 31, 2016 (from April 1, 2015 to March 31, 2016)

Unit: Millions of yen

	Japan	Americas	Europe	Asia and Oceania	Total
Net sales					
External customer sales	66,124	12,625	13,101	13,652	105,504
Intersegment sales and transfer	5,704	56	309	7,578	13,648
Total	71,829	12,681	13,411	21,231	119,153
Segment profit	3,806	465	836	1,309	6,417
Segment assets	83,738	10,627	11,116	20,768	126,250
Other items					
Depreciation	2,456	273	547	663	3,941
Amount of increases in property, plant and equipment and intangible assets	3,111	3,039	1,787	2,398	10,337

4. Difference between the total amount of profit or loss, assets and other items for reportable segments and the amount recorded on the consolidated financial statements, and a major breakdown of the difference

(Matters related to difference adjustment)

Unit: Millions of yen

Net sales	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Reportable segments total	114,898	119,153
Intersegment eliminations	(15,067)	(13,648)
Net sales on the consolidated statements of income	99,831	105,504

Unit: Millions of yen

Profit	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Reportable segments total	7,827	6,417
Intersegment eliminations	7	(6)
Amortization of goodwill	(60)	(55)
Adjustment of inventories	(329)	102
Other adjustment	0	(0)
Operating income on the consolidated statements of income	7,444	6,457

Unit: Millions of yen

Assets	March 31, 2015	March 31, 2016
Reportable segments total	123,386	126,250
Intersegment eliminations	(27,316)	(30,494)
Other adjustment	(894)	987
Total assets on the consolidated balance sheets	95,174	96,743

Unit: Millions of yen

	Reportable segments total		Adjustment		Amount recorded on the consolidated financial statements	
Other Items	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Depreciation	2,500	3,941	-	-	2,500	3,941
Amount of increases in property, plant and equipment and intangible assets	10,184	10,337	-	-	10,184	10,337

[Pertinent information]

Fiscal year ended March 31, 2015 (from April 1, 2014 to March 31, 2015)

1. Information by product or service

Unit: Millions of yen

	Mechatronic products	Supply products	Total
External customer sales	42,042	57,788	99,831

2. Information by region

1) Net sales

This information has been omitted, as classification is the same as for reportable segments.

2) Property, plant and equipment

Unit: Millions of yen

Japan	Americas	Europe	Asia and Oceania	Total
12,752	1,165	4,010	3,197	21,126

3. Information by major customers

Disclosure of this item is omitted because out of the customers included in external customer sales, there are no customers that make up 10% or more of the net sales recorded on the consolidated statements of income.

Fiscal year ended March 31, 2016 (from April 1, 2015 to March 31, 2016)

1. Information by product or service

Unit: Millions of yen

	Mechatronic products	Supply products	Total
External customer sales	41,546	63,958	105,504

2. Information by region

1) Net sales

This information has been omitted, as classification is the same as for reportable segments.

2) Property, plant and equipment

Unit: Millions of yen

Japan	Americas	Europe	Asia and Oceania	Total
13,304	1,493	6,466	3,588	24,853

3. Information by major customers

Disclosure of this item is omitted because out of the customers included in external customer sales, there are no customers that make up 10% or more of the net sales recorded on the consolidated statements of income.

[Information on impairment loss of non-current assets by reportable segment]

Fiscal year ended March 31, 2015 (from April 1, 2014 to March 31, 2015)

Unit: Millions of yen

	Japan	Americas	Europe	Asia and Oceania	Corporate and eliminations	Total
Impairment loss	443	-	-	-	-	443

Fiscal year ended March 31, 2016 (from April 1, 2015 to March 31, 2016)

Not Applicable

[Information on amortization of goodwill and remaining goodwill balance by reportable segment]

Fiscal year ended March 31, 2015 (from April 1, 2014 to March 31, 2015)

Unit: Millions of yen

	Japan	Americas	Europe	Asia and Oceania	Corporate and eliminations	Total
Amount of amortization	46	93	62	836	60	1,099
Balance at the end of period	25	196	2,682	3,309	77	6,291

(Note)

Goodwill is recorded when the SATO Group acquires barcode and other related businesses, and is not attributable to reportable segments.

Fiscal year ended March 31, 2016 (from April 1, 2015 to March 31, 2016)

Unit: Millions of yen

	Japan	Americas	Europe	Asia and Oceania	Corporate and eliminations	Total
Amount of amortization	30	117	101	869	55	1,175
Balance at the end of period	46	1,451	804	2,231	13	4,546

(Note)

Goodwill is recorded when the SATO Group acquires barcode and other related businesses, and is not attributable to reportable segments.

[Information on gain on negative goodwill by reportable segment]

Not Applicable