Consolidated Financial Report
for the First Six Months of the March 2017 Term

<Under Japanese GAAP>

November 4, 2016

SATO HOLDINGS CORPORATION

Company code number:	6287 (URL http://www.sato.co.jp)
Shares traded on:	TSE1
Executive position of legal representative:	Kazuo Matsuyama, President and CEO, Representative Director
Please address all communications to:	Yoichi Abe, Chief Financial Officer (CFO), Executive Officer Phone: 03-5745-3414
Scheduled submission date for quarterly securities report:	November 11, 2016
Date of commencement of dividend payments:	December 9, 2016
Supplementary explanatory materials for quarterly results:	Available

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

(millions of yen, with fractional amounts discarded)

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

(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, 2016	51,083	(1.5)	2,652	25.5	2,379	15.9
September 30, 2015	51,880	9.1	2,112	(30.0)	2,053	(35.2)

(Note) Comprehensive income: Six months ended September 30, 2016: ¥(1,619) million (-%)
Six months ended September 30, 2015: ¥(1,167) million (-%)

	Profit attributable to owners of parent		Basic earnings per share	Diluted earnings per share
Six months ended	(Millions of yen)	%	(Yen)	(Yen)
September 30, 2016	1,507	33.1	44.96	44.90
September 30, 2015	1,132	(36.3)	33.80	33.73

(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, 2016	93,000	49,606	52.2	1,448.38
March 31, 2016	96,887	52,155	52.8	1,525.09

(N.B.) Total equity:

As of September 30, 2016: ¥48,560 million As of March 31, 2016: ¥51,125 million

2. Dividends

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

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

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

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Yen)
Annual	110,000	4.3	7,500	16.2	7,200	17.7	4,500	22.0	134.22

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

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

As of September 30, 2016:	1,393,813 shares
As of March 31, 2016:	1,397,962 shares

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

Six months ended September 30, 2016:	33,525,994 shares
Six months ended September 30, 2015:	33,497,064 shares

*** Indication about carrying-out of the quarterly review procedures**

This quarterly financial report is not subject to the quarterly review procedures based on the Financial Instruments and Exchange Act of Japan. At the time of disclosure of this quarterly financial report, the procedures to review quarterly consolidated financial statements based on the Financial Instruments and Exchange Act have not been completed.

*** Explanation about the proper use of consolidated forecasts and other notes**

Forward-looking statements, including the consolidated forecasts stated in these materials, are based on information currently available to the Company and certain assumptions deemed reasonable. Consequently, any statements herein do not constitute assurances regarding actual results by the Company. Results may differ materially from the consolidated forecasts due to various factors. Please refer to page 5 of the attached materials to the quarterly financial report for the suppositions that form the assumptions for consolidated forecasts and cautions concerning the use thereof.

Attached Materials

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

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

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

In the first six months of this fiscal year, revenues decreased in Japan but operating income increased on account of improved profitability. Overseas, the continued appreciation of the yen led to decreased revenues and profits.

As a result of the above, for the first six months, the SATO Group recorded a decrease in net sales, down 1.5% from the same period of the previous fiscal year to ¥51,083 million and an increase in operating income, up 25.5% to ¥2,652 million. Ordinary income increased by 15.9% to ¥2,379 million and profit attributable to owners of parent increased by 33.1% to ¥1,507 million.

By segment, the SATO Group reported the following:

<Japan>

In the Japanese market, sales of mechatronics products fell below prior-year results due to the shift in timing of large-scale orders from the first half (as was last fiscal year) to the second half of the fiscal year. Sales of supply products, on the other hand, increased year on year owing to increased demand from the manufacturing and e-commerce sectors. Operating income also rose year on year due to a combination of factors including lower procurement costs from a stronger yen, improved gross profit margins mainly from expanded sales of the highly profitable CLNX-J strategic barcode printer series, and SG&A savings from a more efficient deployment of operating expenses.

Given the trend of overall labor shortage, demand for automation and streamlining operations in the logistics (including e-commerce), manufacturing, and other industries remains upbeat, leading to multiple business deals now underway. We aim to achieve stable growth in the domestic market by strengthening our solutions capabilities while steadily commercializing our field-proven, customer-specific solutions as standard packages for the respective industries.

Under these circumstances, net sales decreased 0.6% to ¥32,125 million, while operating income rose 59.0% to ¥1,465 million, compared to the same period of the previous fiscal year.

<Americas>

In the North American market, net sales and operating income increased significantly year on year as SATO America continued sales expansion of labels (with major drug store) and barcode printers including the CLNX series. For SATO Global Solutions (SGS), large-scale orders of printers for food management applications led to a year-on-year increase in net sales, but R&D delays for the retail-focused digital solutions business it is pursuing with several major global companies kept operating losses almost on par with the previous fiscal year.

In the South American market, Brazilian leading primary label producer Prakolar Rotulos Auto-Advesivos S.A., which we acquired in November 2015, contributed positively to sales results in the region. Operating income fell year on year, however, as Argentina’s Achernar S.A. was affected by the delayed closing of large-scale business deals to the second half or later, depreciation of its local currency, and subdued consumer spending over the past months.

Under these circumstances, net sales rose 18.4% to ¥6,780 million (an increase of 43.7%, however, excluding foreign currency effects) and operating income fell 9.5% to ¥80 million, compared to the same period of the previous fiscal year.

<Europe>

In the European market, sales and operating income of our primary label company Okil-Holding, JSC in Russia rose by double digits on a local-currency basis but declined in Japanese yen terms due to the effects of yen appreciation when compared to the previous fiscal year. Existing business experienced an overall improvement in profitability, as we were successful in growing CLNX sales steadily in countries such as Germany and implementing various measures to strengthen our sales structure. We are now working to establish stable repeat business for supply products while utilizing our new label plant in Poland that began operations in March 2016.

Under these circumstances, net sales fell 11.4% to ¥5,977 million (a rise of 10.4%, however, excluding foreign currency effects), while operating income rose 1.6% to ¥424 million, compared to the same period of the previous fiscal year.

<Asia and Oceania>

In Asia, India, Indonesia, and Vietnam continued to record large sales increases in local currency versus the previous fiscal year while key markets such as China, Thailand, and Singapore struggled due to economic slowdown. Operating income decreased year on year as we made investments to strengthen business in Indonesia with the opening of a new local label plant in May 2016. In Oceania, operating income grew steadily for our sales companies, and earnings improved for SATO Vicinity, which develops solutions based on PJM, our proprietary RFID technology.

Meanwhile in Taiwan, Argox Information Co., Ltd. missed projected targets due to deterioration in the market environment and delays in the introduction of new products. We are aiming to achieve second-half operating profitability for Argox after amortization of goodwill by overhauling its sales structure to develop new growth markets and introducing new products as initially planned.

The Asian markets are very important as they account for a high share of operating income, and we expect them to grow further going forward. We will continue to consider investing business resources for further market expansion in the region.

Under these circumstances, net sales decreased 12.7% to ¥6,199 million (a rise of 2.8%, however, excluding foreign currency effects), while operating income fell 20.5% to ¥598 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 ¥93,000 million, a decrease of ¥3,886 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 ¥49,606 million, a ¥2,549 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 ¥14,746 million, a decrease of ¥1,466 million compared to the end of the previous fiscal year.

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥4,782 million, an increase of 113.3% compared to the same period of the previous fiscal year.

This resulted primarily from ¥2,384 million of profit before income taxes, ¥1,926 million for depreciation and a ¥2,226 million increase in notes and accounts payable - trade, offsetting a ¥2,126 million decrease in accounts payable - other, a ¥749 million increase in inventories and ¥887 million of income taxes paid.

Cash flows from investing activities

Net cash used in investing activities totaled ¥3,012 million, a decrease of 7.3% compared to the same period of the previous fiscal year.

This resulted primarily from expenditures of ¥2,580 million for purchase of property, plant and equipment.

Cash flows from financing activities

Net cash used in financing activities was ¥2,261 million, an increase of 503.2% compared to the same period of the previous fiscal year.

This resulted primarily from a ¥6,715 million net decrease in short-term loans payable and ¥938 million of cash dividends paid, notwithstanding ¥5,847 million proceeds from long-term loans payable.

(3) Explanation of consolidated forecasts and other projections

Considering the recent increasing trend of yen appreciation and the delayed development of the digital solutions business at SGS, we have revised our consolidated forecasts for the entire fiscal year as follows.

Consolidated forecasts for the fiscal year ending March 31, 2017

Net sales	¥110,000 million	(previous forecast ¥113,000 million)
Operating income	¥7,500 million	(previous forecast ¥8,000 million)
Ordinary income	¥7,200 million	(previous forecast ¥7,900 million)
Profit attributable to owners of parent	¥4,500 million	(previous forecast ¥5,000 million)

The foreign exchange rates used for the second-half forecast are US$1 = ¥105 and €1 = ¥118.

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

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

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

(3) Additional information

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

3. Consolidated Financial Statements

(1) Consolidated balance sheets

Unit: Millions of yen

	March 31, 2016	September 30, 2016
Assets		
Current assets		
Cash and deposits	17,856	16,439
Notes and accounts receivable - trade	22,460	21,034
Securities	187	206
Merchandise and finished goods	7,264	7,361
Work in process	422	522
Raw materials and supplies	2,795	2,589
Other	3,388	3,946
Allowance for doubtful accounts	(139)	(148)
Total current assets	54,235	51,952
Non-current assets		
Property, plant and equipment		
Machinery, equipment and vehicles, net	10,146	10,396
Land	5,440	6,399
Other, net	9,267	8,641
Total property, plant and equipment	24,853	25,437
Intangible assets		
Goodwill	4,596	3,805
Other	6,237	5,730
Total intangible assets	10,834	9,535
Investments and other assets	6,963	6,075
Total non-current assets	42,652	41,048
Total assets	96,887	93,000
Liabilities		
Current liabilities		
Notes and accounts payable - trade	6,475	6,265
Electronically recorded obligations - operating	–	2,188
Short-term loans payable	7,783	999
Accounts payable - other	13,054	10,950
Income taxes payable	947	1,055
Provision	386	429
Other	5,101	5,429
Total current liabilities	33,750	27,317
Non-current liabilities		
Long-term loans payable	3,935	9,563
Net defined benefit liability	2,212	1,937
Other	4,835	4,575
Total non-current liabilities	10,982	16,077
Total liabilities	44,732	43,394

Unit: Millions of yen

	March 31, 2016	September 30, 2016
Net assets		
Shareholders’ equity		
Capital stock	8,468	8,468
Capital surplus	7,666	7,775
Retained earnings	37,892	38,461
Treasury shares	(2,559)	(2,658)
Total shareholders’ equity	51,468	52,046
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1	0
Foreign currency translation adjustment	310	(2,980)
Remeasurements of defined benefit plans	(654)	(506)
Total accumulated other comprehensive income	(342)	(3,486)
Subscription rights to shares	100	99
Non-controlling interests	928	946
Total net assets	52,155	49,606
Total liabilities and net assets	96,887	93,000

(2) Consolidated statements of (comprehensive) income

(Consolidated statements of income)

Unit: Millions of yen

	Six months ended September 30, 2015	Six months ended September 30, 2016
Net sales	51,880	51,083
Cost of sales	30,219	29,322
Gross profit	21,660	21,760
Selling, general and administrative expenses	19,547	19,108
Operating income	2,112	2,652
Non-operating income		
Interest income	49	69
Dividend income	1	11
Rent income	49	70
Other	117	106
Total non-operating income	218	259
Non-operating expenses		
Interest expenses	127	63
Foreign exchange losses	1	255
Sales discounts	31	28
Share of loss of entities accounted for using equity method	–	113
Other	118	70
Total non-operating expenses	277	532
Ordinary income	2,053	2,379
Extraordinary income		
Gain on sales of non-current assets	20	12
Total extraordinary income	20	12
Extraordinary losses		
Loss on retirement of non-current assets	1	4
Loss on sales of non-current assets	6	3
Restructuring loss	99	–
Loss on prior period adjustment	12	–
Total extraordinary losses	120	7
Profit before income taxes	1,953	2,384
Income taxes - current	667	1,046
Income taxes - deferred	126	(213)
Total income taxes	793	833
Profit	1,159	1,551
Profit attributable to non-controlling interests	27	44
Profit attributable to owners of parent	1,132	1,507

(Consolidated statements of comprehensive income)

Unit: Millions of yen

	Six months ended September 30, 2015	Six months ended September 30, 2016
Profit	1,159	1,551
Other comprehensive income		
Valuation difference on available-for-sale securities	(0)	(0)
Foreign currency translation adjustment	(2,369)	(2,968)
Remeasurements of defined benefit plans, net of tax	42	147
Share of other comprehensive income of entities accounted for using equity method	–	(349)
Total other comprehensive income	(2,327)	(3,170)
Comprehensive income	(1,167)	(1,619)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(1,111)	(1,636)
Comprehensive income attributable to non-controlling interests	(56)	17

(3) Consolidated statements of cash flows

Unit: Millions of yen

	Six months ended September 30, 2015	Six months ended September 30, 2016
Cash flows from operating activities		
Profit before income taxes	1,953	2,384
Depreciation	1,921	1,926
Amortization of goodwill	604	581
Loss (gain) on sales of non-current assets	(13)	(9)
Loss on retirement of non-current assets	1	4
Loss on business restructuring	99	–
Increase (decrease) in provision	9	26
Increase (decrease) in allowance for doubtful accounts	4	(20)
Increase (decrease) in net defined benefit liability	22	(131)
Interest and dividend income	(51)	(81)
Interest expenses	127	63
Foreign exchange losses (gains)	(393)	482
Decrease (increase) in notes and accounts receivable - trade	1,096	807
Decrease (increase) in inventories	50	(749)
Increase (decrease) in notes and accounts payable - trade	(1)	2,226
Increase (decrease) in accounts payable - other	(428)	(2,126)
Other, net	(1,122)	169
Subtotal	3,880	5,554
Interest and dividend income received	49	81
Interest expenses paid	(118)	(58)
Payments for business restructuring	(99)	–
Income taxes paid	(1,470)	(887)
Income taxes refund	–	91
Net cash provided by (used in) operating activities	2,242	4,782
Cash flows from investing activities		
Payments into time deposits	(1,428)	(1,727)
Proceeds from withdrawal of time deposits	1,415	1,469
Purchase of property, plant and equipment	(2,332)	(2,580)
Proceeds from sales of property, plant and equipment	98	77
Purchase of intangible assets	(409)	(383)
Payments for transfer of business	(162)	–
Other, net	(430)	132
Net cash provided by (used in) investing activities	(3,250)	(3,012)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	1,401	(6,715)
Proceeds from long-term loans payable	69	5,847
Repayments of long-term loans payable	(86)	(115)
Proceeds from sales of treasury shares	–	500
Repayments of lease obligations	(919)	(332)
Cash dividends paid	(836)	(938)
Other, net	(2)	(505)
Net cash provided by (used in) financing activities	(374)	(2,261)
Effect of exchange rate change on cash and cash equivalents	(464)	(974)
Net increase (decrease) in cash and cash equivalents	(1,847)	(1,466)
Cash and cash equivalents at beginning of period	17,145	16,212
Cash and cash equivalents at end of period	15,297	14,746

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

(Matters related to difference adjustment)

Unit: Millions of yen

Profit	Amount
Reportable segments total	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.

II. Six months ended September 30, 2016 (from April 1, 2016 to September 30, 2016)

1. Information on net sales and profit or loss by reportable segment

Unit: Millions of yen

	Japan	Americas	Europe	Asia and Oceania	Total
Net sales					
External customer sales	32,125	6,780	5,977	6,199	51,083
Intersegment sales and transfer	2,794	23	117	3,845	6,781
Total	34,919	6,803	6,094	10,045	57,864
Segment profit	1,465	80	424	598	2,568

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

(Matters related to difference adjustment)

Unit: Millions of yen

Profit	Amount
Reportable segments total	2,568
Intersegment eliminations	4
Amortization of goodwill	(12)
Adjustment of inventories	92
Other adjustment	–
Operating income on the consolidated statements of income	2,652

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

Not Applicable