

# Consolidated Financial Report for the March 2017 Term

<Under Japanese GAAP>

May 9, 2017

## 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

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 20, 2017

Date of commencement of dividend payments: June 21, 2017

Scheduled submission date for annual securities report: June 21, 2017

Supplementary explanatory materials for financial results: Available

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

(millions of yen, with fractional amounts discarded)

### 1. Consolidated operating results for the fiscal year ended March 31, 2017 (from April 1, 2016 to March 31, 2017)

#### (1) Consolidated financial results

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

Fiscal year ended	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
March 31, 2017	106,302	0.8	6,104	(5.4)	5,426	(11.3)	3,221	(12.7)
March 31, 2016	105,504	5.7	6,455	(13.3)	6,119	(18.2)	3,687	(2.0)

(Note) Comprehensive income: Fiscal year ended March 31, 2017: ¥4,038 million (-%)  
Fiscal year ended March 31, 2016: ¥47 million (-99.1%)

Fiscal year ended	Basic earnings per share	Diluted earnings per share	Return on equity ratio	Ratio of ordinary profit to total asset	Ratio of operating profit to net sales
	(Yen)	(Yen)	(%)	(%)	(%)
March 31, 2017	96.07	95.95	6.2	5.4	5.7
March 31, 2016	110.07	109.86	7.1	6.4	6.1

(N.B.) Equity in earnings or losses of affiliates: Fiscal year ended March 31, 2017: ¥(303) million  
Fiscal year ended March 31, 2016: -

## (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, 2017	104,280	54,217	50.8	1,579.53
March 31, 2016	96,887	52,155	52.8	1,525.09

(N.B.) Total equity:

As of March 31, 2017: ¥52,957 million

As of March 31, 2016: ¥51,125 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, 2017	10,769	(8,716)	(1,343)	16,757
March 31, 2016	6,091	(9,596)	3,254	16,212

## 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, 2016	–	27.00	–	28.00	55.00	1,843	50.0	3.5
March 31, 2017	–	30.00	–	30.00	60.00	2,024	62.5	3.9
March 31, 2018 (Forecast)	–	32.00	–	33.00	65.00		60.5	

## 3. Consolidated forecasts for the fiscal year ending March 31, 2018 (from April 1, 2017 to March 31, 2018)

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

	Net sales		Operating profit		Ordinary profit		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	54,700	7.1	2,200	(17.1)	2,150	(9.6)	1,200	(20.4)	35.79
Annual	113,500	6.8	6,000	(1.7)	5,900	8.7	3,600	11.8	107.38

**\* 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, 2017:	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 March 31, 2017:	1,394,065 shares
As of March 31, 2016:	1,397,962 shares
  - 3) Average number of shares during the term

Fiscal year ended March 31, 2017:	33,526,661 shares
Fiscal year ended March 31, 2016:	33,502,111 shares

**\* Financial reports are not required to be audited.**

**\* 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 7 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. Overview of Financial Performance and Others**

### **(1) Overview of financial performance during the fiscal year ended March 31, 2017**

(Financial performance during the fiscal year ended March 31, 2017)

The SATO Group has formulated 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 has been working 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.” (To reflect our recent business developments, changes in the external environment, and our performance for this fiscal year under review, partial changes have been made to the Medium-term Management Plan that will now begin in FY 2017 (the fiscal ending March 31, 2018). An overview of these changes will be provided at our forthcoming financial results briefing.)

In Japan, net sales and operating profit increased from the previous year due to various measures taken in this fiscal year. Overseas, the continued appreciation of the yen led net sales and operating profit to fall year on year.

As a result, the SATO Group recorded an increase in net sales, up 0.8% from the previous fiscal year to ¥106,302 million and a decrease in operating profit, down 5.4% to ¥6,104 million. Ordinary profit decreased by 11.3% to ¥5,426 million, and profit attributable to owners of parent decreased by 12.7% to ¥3,221 million.

By segment, the SATO Group reported the following:

<Japan>

In the Japanese market, sales of mechatronics and supply products increased year on year owing to increased demand from the manufacturing and e-commerce sectors. Operating profit and profitability also increased due to a combination of factors including lower procurement costs from a stronger yen, and improved gross profit margins mainly from expanded sales of the CLNX-J strategic barcode printer series.

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. A growing number of business discussions are taking place as we steadily commercialize our field-proven, customer-specific solutions as standard packages for the respective industries. Going forward, we aim to achieve stable growth in the domestic market by further strengthening our solutions capabilities.

Under these circumstances, net sales increased 1.9% to ¥67,375 million and operating profit rose 13.8% to ¥4,331 million, compared to the previous fiscal year.

#### <Americas>

In the North American market, net sales and operating profit increased significantly year on year as SATO America posted better-than-expected growth for label business with major drug store and continued strong sales for 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. Operating losses, on the other hand, rose from the previous fiscal year as R&D delays resulted in postponing the official launch of the retail-focused digital solution it is driving with several major global companies until next term.

In the South American market, Argentina's Achernar S.A. was affected by major depreciation of its local currency, inflation, and subdued consumer spending, leading to the delayed closing of business deals with specific key customers. Attempts were made to offset this with sales gains from other customers but a shortfall remains, causing regional operating profit to decrease year on year. Meanwhile, Brazilian leading primary label producer Prakolar Rotulos Auto-Adesivos S.A., which we acquired in November 2015, contributed positively to sales results in the region.

Under these circumstances, net sales rose 7.6% to ¥13,580 million (an increase of 22.0%, however, excluding foreign currency effects), while operating profit fell 82.0% to ¥83 million, compared to the previous fiscal year.

#### <Europe>

In the European market, sales at our primary label company Okil-Holding, JSC in Russia grew steadily on a local-currency basis but operating profit declined significantly when compared to the previous fiscal year due to the recording of SG&A expenses and inventory disposal in the second half. At the same time, local-currency revenues and profits rose for existing business, as we were successful in growing CLNX sales volume significantly 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 4.4% to ¥12,525 million (a rise of 9.0%, however, excluding foreign currency effects) and operating profit fell 30.1% to ¥584 million, compared to the previous fiscal year.

#### <Asia and Oceania>

In Asia, India, Indonesia, and Vietnam continued to achieve double-digit sales increases in local currency versus the previous fiscal year while key markets such as China, Thailand, and Singapore struggled to grow their business with Japanese companies in the manufacturing sector amid economic slowdown, leading to only a single-digit increase in local-currency sales. Operating profit 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 and establish sales subsidiaries in the Philippines and Taiwan in response to increased local demand for

auto-identification solutions. In Oceania, operating profit grew robustly for our sales companies, and earnings improved for SATO Vicinity, which develops solutions based on PJM, our proprietary RFID technology.

When compared to the previous fiscal year, Taiwan's Argox Information Co., Ltd. reported lower sales and operating profit due to deterioration in the market environment and delays in the introduction of new products. We are aiming to achieve a recovery in earnings for Argox by overhauling its sales structure to develop new growth markets and introducing new products as previously planned.

The Asian markets are very important as they account for a high share of our operating profit, 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 6.1% to ¥12,821 million (a rise of 4.2%, however, excluding foreign currency effects), and operating profit fell 26.3% to ¥965 million, compared to the previous fiscal year.



## **(2) Overview of financial position during the fiscal year ended March 31, 2017**

### **a. Assets, liabilities and net assets**

At the end of the fiscal year under review, the balance of current assets was ¥55,571 million, an increase of ¥1,335 million (¥54,235 million recorded at the end of the previous fiscal year). This was primarily the result of an increase in notes and accounts receivable - trade of ¥754 million. The balance of non-current assets was ¥48,709 million (¥42,652 million at the end of the previous fiscal year), an increase of ¥6,057 million. This was primarily the result of increases in property, plant and equipment of ¥2,497 million and intangible assets of ¥5,772 million, as well as a decrease of ¥2,068 million in investment securities.

The balance of current liabilities was ¥34,446 million (¥33,750 million at the end of the previous fiscal year), an increase of ¥696 million. This was primarily the result of increases in notes and accounts payable - trade of ¥1,226 million and income taxes payable of ¥766 million, as well as a decrease in short-term loans payable of ¥3,445 million. The balance of non-current liabilities was ¥15,616 million (¥10,982 million at the end of the previous fiscal year), an increase of ¥4,634 million. This was mainly due to an increase of ¥4,728 million in long-term loans payable.

The balance of net assets at the end of the fiscal year under review was ¥54,217 million (¥52,155 million at the end of the previous fiscal year), an increase of ¥2,061 million. This was primarily due to an increase of ¥543 million in foreign currency translation adjustment.

### (3) Overview of cash flows during the fiscal year ended March 31, 2017

At the end of the fiscal year under review, cash and cash equivalents (referred to below as “cash”) stood at ¥16,757 million, an increase of ¥545 million compared to the end of the previous fiscal year.

The major cash flow-related factors for the fiscal year ended March 31, 2017 are outlined below.

#### *Cash flows from operating activities*

Net cash provided by operating activities amounted to ¥10,769 million.

This resulted primarily from ¥5,434 million of profit before income taxes, ¥3,996 million for depreciation, ¥1,195 million for amortization of goodwill (the latter two being non-cash items), and a ¥12,531 million increase in notes and accounts payable - trade, as well as a ¥11,168 million decrease in accounts payable - other and ¥1,500 million of income taxes paid.

#### *Cash flows from investing activities*

Net cash used in investing activities totaled ¥8,716 million.

This resulted primarily from expenditures of ¥3,911 million for purchase of property, plant and equipment and ¥5,308 million for purchase of shares of subsidiaries resulting in change in scope of consolidation.

#### *Cash flows from financing activities*

Net cash used in financing activities amounted to ¥1,343 million.

This resulted primarily from a ¥4,443 million decrease in short-term loans payable, ¥1,950 million of cash dividends paid and ¥697 million for repayments of lease obligations, as well as ¥6,003 million proceeds from long-term loans payable.

#### *Trend in cash flow indices*

Fiscal year ended	March 31, 2014	March 31, 2015	March 31, 2016	March 31, 2017
Equity ratio (%)	53.7	55.9	52.9	50.8
Equity ratio based on market value (%)	88.3	95.9	83.0	76.3
Ratio of cash flow to interest-bearing debt (%)	82.5	106.9	264.6	157.9
Interest-coverage ratio (times)	78.5	43.5	32.9	83.5

(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.

#### (4) Forecasts

While there is concern over risks such as the rise of protectionism and economic slowdown in emerging countries, the overall global economy is expected to take on a gradual track of recovery. Operating under this environment, the SATO Group has launched a new five-year Medium-term Management Plan beginning in FY 2017, which is partially revised from its old plan as aforementioned. In addition to increasing the earning power of its auto-identification solutions business, the Group will seek to achieve operating profitability for its new materials businesses including Inline Digital Printing (while starting with an estimated operating loss of ¥1.7 billion in FY 2017) so as to establish sustainable growth and profit.

In light of the above, our consolidated forecasts for the fiscal year ending March 31, 2018 are as follows.

Net sales	¥113,500 million	(increase by 6.8% year on year)
Operating profit	¥6,000 million	(decrease by 1.7% year on year)
Ordinary profit	¥5,900 million	(increase by 8.7% year on year)
Profit attributable to owners of parent	¥3,600 million	(increase by 11.8% year on year)

The average foreign exchange rates during the period assumed in the above forecast are US\$1 = ¥110 and €1 = ¥120.

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. Our Basic Stance regarding Selection of Accounting Standards**

The SATO Group chooses to use Japanese GAAP for accounting because Japanese accounting standards are now of high quality and internationally competitive as a result of convergence with international accounting standards and have been accepted to be equivalent to International Financial Reporting Standards (IFRSs) in Europe.

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

### 3. Consolidated Financial Statements and Significant Notes Thereto

#### (1) Consolidated balance sheets

Unit: Millions of yen

	March 31, 2016	March 31, 2017
<b>Assets</b>		
Current assets		
Cash and deposits	17,856	17,139
Notes and accounts receivable - trade	22,460	23,215
Securities	187	236
Merchandise and finished goods	7,264	7,585
Work in process	422	607
Raw materials and supplies	2,795	2,798
Accounts receivable - other	1,563	1,577
Deferred tax assets	738	819
Other	1,086	1,760
Allowance for doubtful accounts	(139)	(168)
<b>Total current assets</b>	<b>54,235</b>	<b>55,571</b>
Non-current assets		
Property, plant and equipment		
Buildings and structures	12,247	13,209
Accumulated depreciation	(5,827)	(5,935)
Buildings and structures, net	6,420	7,274
Machinery, equipment and vehicles	22,919	25,136
Accumulated depreciation	(12,773)	(14,640)
Machinery, equipment and vehicles, net	10,146	10,496
Tools, furniture and fixtures	6,657	5,903
Accumulated depreciation	(5,145)	(4,563)
Tools, furniture and fixtures, net	1,511	1,339
Land	5,440	7,066
Construction in progress	1,335	1,174
<b>Total property, plant and equipment</b>	<b>24,853</b>	<b>27,351</b>
Intangible assets		
Goodwill	4,596	10,942
Software	4,877	4,151
Leasehold right	167	144
Other	1,193	1,368
<b>Total intangible assets</b>	<b>10,834</b>	<b>16,607</b>
Investments and other assets		
Investment securities	3,448	1,379
Long-term loans receivable	371	376
Guarantee deposits	626	615
Deferred tax assets	1,035	1,220
Net defined benefit asset	2	–
Other	1,894	1,846
Allowance for doubtful accounts	(414)	(687)
<b>Total investments and other assets</b>	<b>6,963</b>	<b>4,750</b>
<b>Total non-current assets</b>	<b>42,652</b>	<b>48,709</b>
<b>Total assets</b>	<b>96,887</b>	<b>104,280</b>

Unit: Millions of yen

	March 31, 2016	March 31, 2017
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	6,475	7,702
Electronically recorded obligations - operating	–	11,668
Short-term loans payable	7,783	4,338
Lease obligations	676	686
Accounts payable - other	13,054	1,876
Income taxes payable	947	1,714
Provision for bonuses	269	247
Provision for product warranties	117	223
Other	4,425	5,988
Total current liabilities	33,750	34,446
Non-current liabilities		
Long-term loans payable	3,935	8,663
Lease obligations	3,573	3,169
Net defined benefit liability	2,212	2,345
Other	1,262	1,438
Total non-current liabilities	10,982	15,616
Total liabilities	44,732	50,063
<b>Net assets</b>		
Shareholders' equity		
Capital stock	8,468	8,468
Capital surplus	7,666	7,775
Retained earnings	37,892	39,162
Treasury shares	(2,559)	(2,659)
Total shareholders' equity	51,468	52,747
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1	1
Foreign currency translation adjustment	310	854
Remeasurements of defined benefit plans	(654)	(645)
Total accumulated other comprehensive income	(342)	209
Subscription rights to shares	100	99
Non-controlling interests	928	1,160
Total net assets	52,155	54,217
<b>Total liabilities and net assets</b>	<b>96,887</b>	<b>104,280</b>

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

Unit: Millions of yen

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Net sales	105,504	106,302
Cost of sales	60,562	61,279
Gross profit	44,942	45,022
Selling, general and administrative expenses	38,487	38,917
Operating profit	6,455	6,104
Non-operating income		
Interest income	118	135
Dividend income	14	12
Purchase discounts	28	21
Rent income	154	143
Other	170	202
Total non-operating income	488	516
Non-operating expenses		
Interest expenses	201	129
Sales discounts	65	59
Foreign exchange losses	350	108
Provision of allowance for doubtful accounts	–	304
Share of loss of entities accounted for using equity method	–	303
Other	206	289
Total non-operating expenses	824	1,194
Ordinary profit	6,119	5,426
Extraordinary income		
Gain on sales of non-current assets	21	14
Gain on step acquisitions	–	598
Total extraordinary income	21	613
Extraordinary losses		
Loss on sales of non-current assets	9	7
Loss on retirement of non-current assets	125	39
Restructuring loss	106	–
Impairment loss	–	557
Loss on prior period adjustment	12	–
Total extraordinary losses	254	605
Profit before income taxes	5,887	5,434
Income taxes - current	1,701	2,468
Income taxes - deferred	432	(298)
Total income taxes	2,134	2,170
Profit	3,752	3,263
Profit attributable to non-controlling interests	65	42
Profit attributable to owners of parent	3,687	3,221

**(Consolidated statements of comprehensive income)**

Unit: Millions of yen

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Profit	3,752	3,263
Other comprehensive income		
Valuation difference on available-for-sale securities	(1)	(0)
Foreign currency translation adjustment	(4,139)	766
Remeasurements of defined benefit plans, net of tax	435	8
Total other comprehensive income	(3,705)	774
Comprehensive income	47	4,038
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	196	3,773
Comprehensive income attributable to non-controlling interests	(149)	265



### (3) Consolidated statements of changes in equity

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			3,687		3,687
Purchase of treasury shares				(3)	(3)
Net changes of items other than shareholders' equity					
Total changes of items during period	30	(230)	1,945	(3)	1,741
Balance at end of current period	8,468	7,666	37,892	(2,559)	51,468

	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	Remeasurements 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							3,687
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	(1,002)
Balance at end of current period	1	310	(654)	(342)	100	928	52,155

Fiscal year ended March 31, 2017

Unit: Millions of yen

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	8,468	7,666	37,892	(2,559)	51,468
Changes of items during period					
Dividends of surplus			(1,950)		(1,950)
Profit attributable to owners of parent			3,221		3,221
Purchase of treasury shares				(501)	(501)
Disposal of treasury shares		109		401	510
Net changes of items other than shareholders' equity					
Total changes of items during period	-	109	1,270	(99)	1,279
Balance at end of current period	8,468	7,775	39,162	(2,659)	52,747

	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	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	1	310	(654)	(342)	100	928	52,155
Changes of items during period							
Dividends of surplus							(1,950)
Profit attributable to owners of parent							3,221
Purchase of treasury shares							(501)
Disposal of treasury shares							510
Net changes of items other than shareholders' equity	(0)	543	8	552	(0)	231	782
Total changes of items during period	(0)	543	8	552	(0)	231	2,061
Balance at end of current period	1	854	(645)	209	99	1,160	54,217

#### (4) Consolidated statements of cash flows

Unit: Millions of yen

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Cash flows from operating activities		
Profit before income taxes	5,887	5,434
Depreciation	3,941	3,996
Amortization of goodwill	1,177	1,195
Impairment loss	–	557
Loss (gain) on step acquisitions	–	(598)
Loss (gain) on sales of non-current assets	(12)	(6)
Loss on retirement of non-current assets	125	39
Loss on business restructuring	106	–
Increase (decrease) in allowance for doubtful accounts	13	294
Increase (decrease) in provision for bonuses	6	(20)
Increase (decrease) in net defined benefit liability	1	284
Interest and dividend income	(133)	(148)
Interest expenses	201	129
Foreign exchange losses (gains)	(160)	(287)
Decrease (increase) in notes and accounts receivable - trade	66	(570)
Decrease (increase) in inventories	(186)	(467)
Decrease (increase) in accounts receivable - other	(474)	(38)
Increase (decrease) in notes and accounts payable - trade	(363)	12,531
Increase (decrease) in accounts payable - other	(627)	(11,168)
Other, net	(1,023)	1,000
Subtotal	8,545	12,158
Interest and dividend income received	130	148
Interest expenses paid	(185)	(129)
Payments for business restructuring	(106)	–
Income taxes paid	(2,293)	(1,500)
Income taxes refund	–	91
Net cash provided by (used in) operating activities	6,091	10,769

Unit: Millions of yen

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
<b>Cash flows from investing activities</b>		
Payments into time deposits	(1,682)	(2,665)
Proceeds from withdrawal of time deposits	1,551	3,829
Purchase of investment securities	(2,102)	(157)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(2,763)	(5,308)
Purchase of property, plant and equipment	(3,849)	(3,911)
Proceeds from sales of property, plant and equipment	183	30
Purchase of intangible assets	(869)	(879)
Payments for transfer of business	(173)	–
Other, net	109	346
Net cash provided by (used in) investing activities	(9,596)	(8,716)
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term loans payable	4,456	(4,443)
Proceeds from long-term loans payable	1,980	6,003
Repayments of long-term loans payable	(265)	(249)
Purchase of treasury shares	(3)	–
Proceeds from sales of treasury shares	–	500
Repayments of lease obligations	(1,241)	(697)
Cash dividends paid	(1,740)	(1,950)
Other, net	68	(506)
Net cash provided by (used in) financing activities	3,254	(1,343)
Effect of exchange rate change on cash and cash equivalents	(682)	(164)
Net increase (decrease) in cash and cash equivalents	(933)	545
Cash and cash equivalents at beginning of period	17,145	16,212
Cash and cash equivalents at end of period	16,212	16,757

## **(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 have their operating results and allocation of business resources reviewed periodically by the Board of Directors.

The SATO Group operates by deploying its unique “DCS & Labeling” business model to offer auto-identification technology based solutions both inside Japan and overseas, adapting the model to meet the specific characteristics of each region. Besides engaging in the manufacturing and sales of mechatronic and supply products, it also provides software and maintenance services as part of its business activities.

Under the current organizational system, the Company, located 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 profit.

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, 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	463	836	1,309	6,416
Segment assets	83,738	10,771	11,116	20,768	126,394
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

Fiscal year ended March 31, 2017 (from April 1, 2016 to March 31, 2017)

Unit: Millions of yen

	Japan	Americas	Europe	Asia and Oceania	Total
Net sales					
External customer sales	67,375	13,580	12,525	12,821	106,302
Intersegment sales and transfer	5,484	71	226	7,761	13,543
Total	72,860	13,651	12,751	20,582	119,846
Segment profit	4,331	83	584	965	5,964
Segment assets	89,378	12,223	26,485	19,286	147,374
Other items					
Depreciation	2,512	358	533	591	3,996
Amount of increases in property, plant and equipment and intangible assets	1,268	750	9,633	1,823	13,476

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, 2016	Fiscal year ended March 31, 2017
Reportable segments total	119,153	119,846
Intersegment eliminations	(13,648)	(13,543)
Net sales on the consolidated statements of income	105,504	106,302

Unit: Millions of yen

Profit	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Reportable segments total	6,416	5,964
Intersegment eliminations	(6)	7
Amortization of goodwill	(55)	(13)
Adjustment of inventories	102	145
Other adjustment	(0)	-
Operating profit on the consolidated statements of income	6,455	6,104

Unit: Millions of yen

Assets	March 31, 2016	March 31, 2017
Reportable segments total	126,394	147,374
Intersegment eliminations	(30,494)	(42,527)
Other adjustment	987	(565)
Total assets on the consolidated balance sheets	96,887	104,280

Unit: Millions of yen

Other Items	Reportable segments total		Adjustment		Amount recorded on the consolidated financial statements	
	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Depreciation	3,941	3,996	-	-	3,941	3,996
Amount of increases in property, plant and equipment and intangible assets	10,337	13,476	-	-	10,337	13,476

**[Pertinent information]**

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.

Fiscal year ended March 31, 2017 (from April 1, 2016 to March 31, 2017)

## 1. Information by product or service

Unit: Millions of yen

	Mechatronic products	Supply products	Total
External customer sales	41,321	64,980	106,302

## 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
	12,715	2,633	7,311	4,690	27,351



### 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, 2016 (from April 1, 2015 to March 31, 2016)

Not Applicable

Fiscal year ended March 31, 2017 (from April 1, 2016 to March 31, 2017)

Unit: Millions of yen

	Japan	Americas	Europe	Asia and Oceania	Corporate and eliminations	Total
Impairment loss	-	-	-	557	-	557

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

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	119	101	869	55	1,177
Balance at the end of period	46	1,501	804	2,231	13	4,596

(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, 2017 (from April 1, 2016 to March 31, 2017)

Unit: Millions of yen

	Japan	Americas	Europe	Asia and Oceania	Corporate and eliminations	Total
Amount of amortization	10	273	95	802	13	1,195
Balance at the end of period	35	1,407	8,616	883	-	10,942

(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