Consolidated Financial Report
for the First Nine Months of the March 2017 Term
<Under Japanese GAAP>

February 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, 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: February 14, 2017
Date of commencement of dividend payments: -
Supplementary explanatory materials for quarterly results: Available
Holding of meeting to explain quarterly results (for analysts and institutional investors): None

(millions of yen, with fractional amounts discarded)

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

(1) Consolidated financial results (cumulative)

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

	Net sales		Operating income		Ordinary income	
Nine months ended	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
December 31, 2016	78,739	(0.0)	4,288	3.3	4,313	9.8
December 31, 2015	78,767	8.0	4,149	(15.8)	3,927	(24.3)

(Note) Comprehensive income: Nine months ended December 31, 2016: ¥3,586 million (-%)
Nine months ended December 31, 2015: ¥(498) million (-%)

	Profit attributable to owners of parent		Basic earnings per share	Diluted earnings per share
Nine months ended	(Millions of yen)	%	(Yen)	(Yen)
December 31, 2016	2,725	23.7	81.29	81.18
December 31, 2015	2,202	(29.7)	65.75	65.62

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	(Millions of yen)	(Millions of yen)	%	(Yen)
December 31, 2016	103,074	53,799	51.0	1,567.86
March 31, 2016	96,887	52,155	52.8	1,525.09

(N.B.) Total equity:

As of December 31, 2016: ¥52,566 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: None

*** Notes**

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

(2) Application of special accounting for preparing the quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections

1) Changes in accounting policies due to revisions to accounting standards: Yes

2) Changes in accounting policies due to other reasons: None

3) Changes in accounting estimates: None

4) Restatement of prior period financial statements after error corrections: None

For details, please refer to the section "(2) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections" of "2. Matters Regarding Summary Information (Notes)" on page 6 of the attached materials.

(4) Number of issued shares (common shares)

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

As of December 31, 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 December 31, 2016:	1,393,892 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 nine months):

Nine months ended December 31, 2016:	33,526,457 shares
Nine months ended December 31, 2015:	33,497,878 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 Nine 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 Japan, revenues and profits increased due to various efforts made during the first nine months of this fiscal year. Overseas, the continued appreciation of the yen led to decreased revenues and profits.

As a result of the above, for the first nine months, the SATO Group recorded flat sales of ¥78,739 million but higher operating income of ¥4,288 million, up 3.3% from the same period of the previous fiscal year. Ordinary income increased by 9.8% to ¥4,313 million and profit attributable to owners of parent increased by 23.7% to ¥2,725 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 income and profitability also increased due to a combination of factors including lower procurement costs from a stronger yen, improved gross profit margins mainly from expanded sales of the 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. 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 1.2% to ¥49,843 million, and operating income rose 31.7% to ¥2,827 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 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, were kept almost on par with 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, 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 decreased year on year, however, as Argentina's Achernar S.A. was affected by the delayed closing of business deals with specific key customers (causing a shortfall despite sales gains from other customers), depreciation of its local currency and subdued customer spending over the past months.
Under these circumstances, net sales rose 15.3% to ¥10,132 million (an increase of 37.4%, however, excluding foreign currency effects) and operating income fell 74.4% to ¥61 million, compared to the same period of the previous fiscal year.

<Europe>
In the European market, business at our primary label company Okil-Holding, JSC in Russia grew steadily on a local-currency basis but reported lower sales and operating income in Japanese yen terms when compared to the previous fiscal year due to the effects of yen appreciation. 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 9.8% to ¥9,196 million (a rise of 8.9%, however, excluding foreign currency effects), and operating income fell 20.1% to ¥547 million, compared to the same period of 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 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 robustly 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 previously 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. Besides establishing sales subsidiaries in the Philippines and Taiwan to begin operations in the fourth quarter this year, we will continue to consider investing business resources for further market expansion in the region.

Under these circumstances, net sales decreased 9.2% to ¥9,568 million (a rise of 4.4%, however, excluding foreign currency effects), and operating income fell 34.1% to ¥790 million, compared to the same period of the previous fiscal year.

(2) Explanation of financial position

Total assets at the end of the third quarter were ¥103,074 million, an increase of ¥6,186 million compared to the end of the previous fiscal year. This was primarily the result of increases in cash and deposits and property, plant and equipment.

Net assets were ¥53,799 million, a ¥1,644 million increase from the end of the previous fiscal year, mainly due to the increase in foreign currency translation adjustment, notwithstanding the payment of cash dividends.

Cash flows

At the end of the third quarter, cash and cash equivalents (referred to below as “cash”) stood at ¥18,886 million, an increase of ¥2,674 million compared to the end of the previous fiscal year.

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥6,887 million, an increase of 109.6% compared to the same period of the previous fiscal year.

This resulted primarily from ¥4,317 million of profit before income taxes, ¥2,934 million for depreciation and a ¥11,130 million increase in notes and accounts payable - trade, offsetting a ¥1,047 million increase in notes and accounts receivable - trade, a ¥9,885 million decrease in accounts payable - other and ¥1,334 million of income taxes paid.

Cash flows from investing activities

Net cash used in investing activities totaled ¥3,721 million, a decrease of 61.1% compared to the same period of the previous fiscal year.

This resulted primarily from expenditures of ¥3,216 million for purchase of property, plant and equipment.

Cash flows from financing activities

Net cash used in financing activities was ¥457 million.

This resulted primarily from a ¥3,699 million net decrease in short-term loans payable and ¥1,943 million of cash dividends paid, notwithstanding ¥5,899 million proceeds from long-term loans payable.

(3) Explanation of consolidated forecasts and other projections

Regarding the consolidated forecasts for the fiscal year ending March 31, 2017, no changes have been made to the forecasts that were announced on November 4, 2016.

2. Matters Regarding Summary Information (Notes)

(1) Changes in significant subsidiaries during the first nine months

Not Applicable

(2) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections

Changes in accounting policies

Application of 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 nine 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	December 31, 2016
Assets		
Current assets		
Cash and deposits	17,856	20,823
Notes and accounts receivable - trade	22,460	23,732
Securities	187	179
Merchandise and finished goods	7,264	7,508
Work in process	422	550
Raw materials and supplies	2,795	2,971
Other	3,388	4,219
Allowance for doubtful accounts	(139)	(175)
Total current assets	54,235	59,809
Non-current assets		
Property, plant and equipment		
Machinery, equipment and vehicles, net	10,146	11,425
Land	5,440	6,591
Other, net	9,267	9,161
Total property, plant and equipment	24,853	27,179
Intangible assets		
Goodwill	4,596	4,005
Other	6,237	5,626
Total intangible assets	10,834	9,631
Investments and other assets	6,963	6,454
Total non-current assets	42,652	43,264
Total assets	96,887	103,074
Liabilities		
Current liabilities		
Notes and accounts payable - trade	6,475	6,845
Electronically recorded obligations - operating	–	10,946
Short-term loans payable	7,783	4,080
Accounts payable - other	13,054	3,267
Income taxes payable	947	1,153
Provision	386	436
Other	5,101	6,315
Total current liabilities	33,750	33,047
Non-current liabilities		
Long-term loans payable	3,935	9,616
Net defined benefit liability	2,212	2,010
Other	4,835	4,600
Total non-current liabilities	10,982	16,227
Total liabilities	44,732	49,274

Unit: Millions of yen

	March 31, 2016	December 31, 2016
Net assets		
Shareholders' equity		
Capital stock	8,468	8,468
Capital surplus	7,666	7,775
Retained earnings	37,892	38,666
Treasury shares	(2,559)	(2,659)
Total shareholders' equity	51,468	52,252
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1	1
Foreign currency translation adjustment	310	843
Remeasurements of defined benefit plans	(654)	(530)
Total accumulated other comprehensive income	(342)	314
Subscription rights to shares	100	99
Non-controlling interests	928	1,133
Total net assets	52,155	53,799
Total liabilities and net assets	96,887	103,074

(2) Consolidated statements of (comprehensive) income

(Consolidated statements of income)

Unit: Millions of yen

	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Net sales	78,767	78,739
Cost of sales	45,411	45,573
Gross profit	33,355	33,166
Selling, general and administrative expenses	29,205	28,877
Operating income	4,149	4,288
Non-operating income		
Interest income	79	104
Dividend income	2	12
Foreign exchange gains	–	27
Rent income	73	107
Other	167	176
Total non-operating income	323	427
Non-operating expenses		
Interest expenses	164	92
Foreign exchange losses	196	–
Sales discounts	49	43
Share of loss of entities accounted for using equity method	–	161
Other	134	105
Total non-operating expenses	545	402
Ordinary income	3,927	4,313
Extraordinary income		
Gain on sales of non-current assets	20	14
Total extraordinary income	20	14
Extraordinary losses		
Loss on retirement of non-current assets	113	6
Loss on sales of non-current assets	17	3
Restructuring loss	94	–
Loss on prior period adjustment	12	–
Total extraordinary losses	238	9
Profit before income taxes	3,709	4,317
Income taxes - current	1,069	1,721
Income taxes - deferred	397	(175)
Total income taxes	1,466	1,545
Profit	2,242	2,772
Profit attributable to non-controlling interests	40	47
Profit attributable to owners of parent	2,202	2,725

(Consolidated statements of comprehensive income)

Unit: Millions of yen

	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Profit	2,242	2,772
Other comprehensive income		
Valuation difference on available-for-sale securities	(0)	0
Foreign currency translation adjustment	(2,829)	908
Remeasurements of defined benefit plans, net of tax	88	123
Share of other comprehensive income of entities accounted for using equity method	–	(218)
Total other comprehensive income	(2,741)	813
Comprehensive income	(498)	3,586
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(337)	3,381
Comprehensive income attributable to non-controlling interests	(161)	204

(3) Consolidated statements of cash flows

Unit: Millions of yen

	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Cash flows from operating activities		
Profit before income taxes	3,709	4,317
Depreciation	2,927	2,934
Amortization of goodwill	890	881
Loss (gain) on sales of non-current assets	(2)	(10)
Loss on retirement of non-current assets	113	6
Loss on business restructuring	94	–
Increase (decrease) in provision	17	(26)
Increase (decrease) in allowance for doubtful accounts	23	9
Increase (decrease) in net defined benefit liability	(0)	(80)
Interest and dividend income	(82)	(116)
Interest expenses	164	92
Foreign exchange losses (gains)	(287)	74
Decrease (increase) in notes and accounts receivable - trade	(225)	(1,047)
Decrease (increase) in inventories	(460)	(449)
Increase (decrease) in notes and accounts payable - trade	(254)	11,130
Increase (decrease) in accounts payable - other	134	(9,885)
Other, net	(1,111)	275
Subtotal	5,651	8,105
Interest and dividend income received	79	116
Interest expenses paid	(152)	(92)
Payments for business restructuring	(94)	–
Income taxes paid	(2,198)	(1,334)
Income taxes refund	–	91
Net cash provided by (used in) operating activities	3,285	6,887
Cash flows from investing activities		
Payments into time deposits	(1,543)	(2,590)
Proceeds from withdrawal of time deposits	1,419	2,332
Purchase of investment securities	(2,109)	–
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(2,753)	–
Purchase of property, plant and equipment	(3,621)	(3,216)
Proceeds from sales of property, plant and equipment	98	34
Purchase of intangible assets	(641)	(507)
Payments for transfer of business	(176)	–
Other, net	(235)	227
Net cash provided by (used in) investing activities	(9,563)	(3,721)

Unit: Millions of yen

	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	5,397	(3,699)
Proceeds from long-term loans payable	1,032	5,899
Repayments of long-term loans payable	(199)	(190)
Proceeds from sales of treasury shares	–	500
Repayments of lease obligations	(1,104)	(518)
Cash dividends paid	(1,737)	(1,943)
Other, net	64	(506)
Net cash provided by (used in) financing activities	3,452	(457)
Effect of exchange rate change on cash and cash equivalents	(354)	(33)
Net increase (decrease) in cash and cash equivalents	(3,179)	2,674
Cash and cash equivalents at beginning of period	17,145	16,212
Cash and cash equivalents at end of period	13,966	18,886

(4) Notes to consolidated financial statements

(Notes related to going-concern assumption)

Not Applicable

(Notes in the event of material changes in amount of shareholders' equity)

Not Applicable

(Segment information)

I. Nine months ended December 31, 2015 (from April 1, 2015 to December 31, 2015)

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

Unit: Millions of yen

	Japan	Americas	Europe	Asia and Oceania	Total
Net sales					
External customer sales	49,241	8,789	10,196	10,540	78,767
Intersegment sales and transfer	4,295	35	238	6,009	10,579
Total	53,536	8,824	10,434	16,550	89,346
Segment profit	2,147	242	685	1,199	4,274

2. 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	4,274
Intersegment eliminations	1
Amortization of goodwill	(42)
Adjustment of inventories	(82)
Other adjustment	(0)
Operating income on the consolidated statements of income	4,149

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

(Significant changes in the amount of goodwill)

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

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

II. Nine months ended December 31, 2016 (from April 1, 2016 to December 31, 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	49,843	10,132	9,196	9,568	78,739
Intersegment sales and transfer	4,113	42	169	5,665	9,991
Total	53,956	10,174	9,366	15,234	88,731
Segment profit	2,827	61	547	790	4,227

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	4,227
Intersegment eliminations	(7)
Amortization of goodwill	(12)
Adjustment of inventories	82
Other adjustment	–
Operating income on the consolidated statements of income	4,288

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

Not Applicable