Consolidated Financial Report
for the First Three Months of the March 2018 Term
<Under Japanese GAAP>

August 4, 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

Scheduled submission date for quarterly securities report: August 10, 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 three months of the fiscal year ending March 31, 2018 (from April 1, 2017 to June 30, 2017)

(1) Consolidated financial results (cumulative)

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

	Net sales		Operating profit		Ordinary profit	
Three months ended	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
June 30, 2017	26,799	5.8	851	(18.7)	721	(15.1)
June 30, 2016	25,341	(0.8)	1,047	58.5	850	11.9

(Note) Comprehensive income: Three months ended June 30, 2017: ¥363 million (-%)
Three months ended June 30, 2016: ¥(2,138) million (-%)

	Profit attributable to owners of parent		Basic earnings per share	Diluted earnings per share
Three months ended	(Millions of yen)	%	(Yen)	(Yen)
June 30, 2017	337	(25.5)	10.08	10.07
June 30, 2016	453	44.9	13.52	13.50

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	(Millions of yen)	(Millions of yen)	%	(Yen)
June 30, 2017	103,929	53,722	50.5	1,564.29
March 31, 2017	104,280	54,217	50.8	1,579.53

(N.B.) Total equity:

As of June 30, 2017: ¥52,446 million As of March 31, 2017: ¥52,957 million

2. Dividends

	Annual dividend per share				
	First quarter	Second quarter	Third quarter	Year-end	Total
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)
March 31, 2017	–	30.00	–	30.00	60.00
March 31, 2018	–				
March 31, 2018 (Forecast)		32.00	–	33.00	65.00

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

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

(Note) Revisions of consolidated forecasts most recently announced: None

* Notes

(1) Changes in significant subsidiaries during the first three 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: None
2) Changes in accounting policies due to other reasons: Yes
3) Changes in accounting estimates: Yes
4) Restatement of prior period financial statements after error corrections: None

For details, please refer to "Changes in accounting policies" under Section (4) of "2. Consolidated Financial Statements and Significant Notes Thereto" on page 11 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 June 30, 2017:	34,921,242 shares
As of March 31, 2017:	34,921,242 shares

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

As of June 30, 2017:	1,394,145 shares
As of March 31, 2017:	1,394,065 shares

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

Three months ended June 30, 2017:	33,527,097 shares
Three months ended June 30, 2016:	33,524,544 shares

*** Quarterly financial reports are not subject to quarterly reviews.**

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

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

Attached Materials

Index

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

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

The SATO Group has launched a new five-year Medium-term Management Plan (FY2017–FY2021) geared toward the business vision of becoming the leader and most trusted company in the auto-identification solutions industry worldwide, exceeding customer expectations in an ever-changing world, under the slogan of pursuing “Ceaseless Creativity for a Sustainable World.” The entire Group is working together to implement this plan that aims to realize sustainable growth and profit at the group level by increasing earning power in auto-identification solutions and achieving operating profitability in the new materials business by FY 2019 (the fiscal ending March 31, 2020).

With various efforts made in the first three months, revenues and profits rose for our existing auto-identification solutions business, which is going strong in Japan particularly. For our materials business, amortization of goodwill and R&D costs from the newly consolidated DataLase Ltd. were recorded as initially planned.

As a result, the SATO Group recorded an increase in net sales, up 5.8% from the same period of the previous fiscal year to ¥26,799 million, and a decrease in operating profit, down 18.7% to ¥851 million. Ordinary profit decreased by 15.1% to ¥721 million and profit attributable to owners of parent decreased by 25.5% to ¥337 million.

By segment, the SATO Group reported the following.

The Group has changed our reporting segments for the first three months from the former four geographical segments (Japan, Americas, Europe, and Asia and Oceania) to three business segments comprising Auto-Identification Solutions Business (Japan), Auto-Identification Solutions Business (Overseas), and Materials Business. This is in line with our move to enter the new materials business full-scale this year and develop it as another core business alongside our existing auto-identification solutions business to create new customer value, based on the aforementioned new Medium-term Management Plan. Accordingly, all year-on-year change figures for this quarter are computed by comparing against prior-year values that have been retroactively adjusted to reflect the new segment classifications.

<Auto-Identification Solutions Business (Japan)>

In Japan, the auto-identification solutions business made a strong showing in all markets with robust demand centered on the manufacturing and e-commerce sectors. Both mechatronics and supply products recorded a year-on-year increase in net sales, together with improved gross profitability owing to expanded sales of high value-add products and continued cost reductions.

As demand for labor saving and streamlining operations primarily in the logistics and manufacturing industries rises amid overall manpower shortages, business deals involving solutions for increasing on-site productivity are becoming more active. We are also beginning to see results from our efforts in switching from a products provider to become a solutions provider. Going forward, we aim to further strengthen our ability to propose solutions for increasingly sophisticated challenges at different customer sites and grow our business stably.

Under these circumstances, net sales increased 7.5% to ¥16,630 million, and operating profit rose 152.4% to ¥862 million, compared to the same period of the previous fiscal year.

<Auto-Identification Solutions Business (Overseas)>

Overseas, the auto-identification solutions business showed signs of improvement to post higher net sales and operating profit from the previous quarter, although operating profit is still lower on a year-on-year basis. One reason is the overall decline in profits at our companies specializing in primary labels. Brazil’s Prakolar Rotulos Auto-Advesivos S.A. had raised its revenues and profits from increased sales of high value-add labels, which however, was unable to offset the large decrease in operating income at Russia’s Okil-Holding, JSC caused by the negative foreign currency effects on its gross profit margin. Another reason is the overall decline in profits at our other overseas companies (including factories) as they struggled to grow the base business in most regions, with the exception of Asia that has sales subsidiaries in Thailand and China as its key drivers.

Under these circumstances, net sales rose 2.5% to ¥10,087 million (a decrease of 1.8%, however, excluding foreign currency effects) and operating profit fell 48.0% to ¥369 million, compared to the same period of the previous fiscal year.

<Materials Business>

Starting this fiscal year, we will enter the new materials business full-scale with Inline Digital Printing (IDP), a technology invented and patented by the U.K.'s DataLase Ltd. which we fully acquired in January 2017, and ECONANO®, SATO's very own CO_2-reducing technology. In this first three months, we worked to capture sales from existing DataLase customers, and at the same time, recorded R&D costs as up-front investment on the IDP technology and amortization of goodwill resulting from such acquisition as initially planned. Besides making progress in business expansion with existing customers and sales activities for acquiring new large-scale deals at DataLase, we have also started specific measures — such as sharing/exchanging skills between DataLase and other group companies, and uncovering new customer needs — aimed at creating synergies with our existing businesses. Our target for the materials business is to break even in FY 2019 (the fiscal ending March 31, 2020) and start contributing to consolidated profits in the following year.

Under these circumstances, net sales rose 313.1% to ¥82 million (free from foreign currency effects), and an operating loss of ¥319 million was incurred, compared with an operating loss of ¥53 million for the same period of the previous fiscal year.

(2) Explanation of financial position

Total assets at the end of the first quarter were ¥103,929 million, a decrease of ¥351 million compared to the end of the previous fiscal year. This was primarily the result of decreases in cash and deposits, notes and accounts receivable - trade and intangible assets.

Net assets were ¥53,722 million, a ¥494 million decrease from the end of the previous fiscal year, mainly due to the payment of cash dividends, notwithstanding the recording of profit attributable to owners of parent.

Cash flows

At the end of the first quarter, cash and cash equivalents (referred to below as "cash") stood at ¥15,233 million, a decrease of ¥1,524 million compared to the end of the previous fiscal year.

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥393 million, a decrease of 83.0% compared to the same period of the previous fiscal year.

This resulted primarily from cash inflows including ¥771 million of profit before income taxes, ¥1,043 million for depreciation and a ¥374 million decrease in notes and accounts receivable - trade, and cash outflows including a ¥302 million increase in inventories and ¥1,591 million of income taxes paid.

Cash flows from investing activities

Net cash used in investing activities totaled ¥1,065 million, an increase of 24.2% compared to the same period of the previous fiscal year.

This resulted primarily from expenditures of ¥1,206 million for the purchase of property, plant and equipment and ¥394 million for the purchase of intangible assets, notwithstanding ¥675 million proceeds from sales of property, plant and equipment and intangible assets.

Cash flows from financing activities

Net cash used in financing activities was ¥988 million, a decrease of 25.6% compared to the same period of the previous fiscal year.

This was primarily paid as cash dividends.

(3) Explanation of consolidated forecasts and other projections

Regarding the consolidated forecasts for the fiscal year ending March 31, 2018, no changes have been made to the forecasts that were announced on May 9, 2017.

2. Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated balance sheets

Unit: Millions of yen

	March 31, 2017	June 30, 2017
Assets		
Current assets		
Cash and deposits	17,139	15,610
Notes and accounts receivable - trade	23,215	22,818
Securities	236	202
Merchandise and finished goods	7,585	7,779
Work in process	607	652
Raw materials and supplies	2,798	2,857
Other	4,156	5,320
Allowance for doubtful accounts	(168)	(181)
Total current assets	55,571	55,060
Non-current assets		
Property, plant and equipment		
Land	7,066	7,296
Machinery, equipment and vehicles	10,496	10,692
Other, net	9,788	10,167
Total property, plant and equipment	27,351	28,156
Intangible assets		
Goodwill	10,942	10,324
Other	5,664	5,530
Total intangible assets	16,607	15,855
Investments and other assets	4,750	4,856
Total non-current assets	48,709	48,868
Total assets	104,280	103,929
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,702	7,415
Short-term loans payable	4,338	4,318
Electronically recorded obligations - operating	11,668	12,028
Accounts payable - other	1,876	2,118
Income taxes payable	1,714	597
Provision	471	538
Other	6,674	7,000
Total current liabilities	34,446	34,018
Non-current liabilities		
Long-term loans payable	8,663	8,843
Net defined benefit liability	2,345	2,390
Other	4,607	4,953
Total non-current liabilities	15,616	16,187
Total liabilities	50,063	50,206

Unit: Millions of yen

	March 31, 2017	June 30, 2017
Net assets		
Shareholders' equity		
Capital stock	8,468	8,468
Capital surplus	7,775	7,712
Retained earnings	39,162	38,488
Treasury shares	(2,659)	(2,659)
Total shareholders' equity	52,747	52,009
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1	1
Foreign currency translation adjustment	854	1,084
Remeasurements of defined benefit plans	(645)	(648)
Total accumulated other comprehensive income	209	436
Subscription rights to shares	99	99
Non-controlling interests	1,160	1,176
Total net assets	54,217	53,722
Total liabilities and net assets	104,280	103,929

(2) Consolidated statements of (comprehensive) income

(Consolidated statements of income)

Unit: Millions of yen

	Three months ended June 30, 2016	Three months ended June 30, 2017
Net sales	25,341	26,799
Cost of sales	14,519	15,439
Gross profit	10,821	11,360
Selling, general and administrative expenses	9,774	10,509
Operating profit	1,047	851
Non-operating income		
Interest income	36	37
Dividend income	6	24
Rent income	36	39
Other	43	52
Total non-operating income	121	153
Non-operating expenses		
Interest expenses	33	33
Foreign exchange losses	178	62
Sales discounts	15	12
Compensation expenses	1	80
Share of loss of entities accounted for using equity method	45	–
Other	42	94
Total non-operating expenses	318	283
Ordinary profit	850	721
Extraordinary income		
Gain on sales of non-current assets	5	561
Total extraordinary income	5	561
Extraordinary losses		
Loss on retirement of non-current assets	0	16
Loss on sales of non-current assets	3	36
Impairment loss	–	458
Total extraordinary losses	3	512
Profit before income taxes	851	771
Income taxes - current	450	538
Income taxes - deferred	(79)	36
Total income taxes	371	575
Profit	480	195
Profit attributable to non-controlling interests	27	(141)
Profit attributable to owners of parent	453	337

(Consolidated statements of comprehensive income)

Unit: Millions of yen

	Three months ended June 30, 2016	Three months ended June 30, 2017
Profit	480	195
Other comprehensive income		
Valuation difference on available-for-sale securities	(0)	0
Foreign currency translation adjustment	(2,455)	170
Remeasurements of defined benefit plans, net of tax	103	(3)
Share of other comprehensive income of entities accounted for using equity method	(266)	–
Total other comprehensive income	(2,619)	167
Comprehensive income	(2,138)	363
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(2,148)	564
Comprehensive income attributable to non-controlling interests	10	(201)

(3) Consolidated statements of cash flows

Unit: Millions of yen

	Three months ended June 30, 2016	Three months ended June 30, 2017
Cash flows from operating activities		
Profit before income taxes	851	771
Depreciation	972	1,043
Amortization of goodwill	299	366
Impairment loss	–	458
Loss (gain) on sales of non-current assets	(2)	(525)
Loss on retirement of non-current assets	0	16
Increase (decrease) in provision	23	26
Increase (decrease) in allowance for doubtful accounts	(27)	69
Increase (decrease) in net defined benefit liability	(105)	40
Interest and dividend income	(42)	(62)
Interest expenses	33	33
Foreign exchange losses (gains)	428	172
Decrease (increase) in notes and accounts receivable - trade	781	374
Decrease (increase) in inventories	(355)	(302)
Increase (decrease) in notes and accounts payable - trade	(201)	139
Increase (decrease) in accounts payable - other	460	241
Other, net	(250)	(908)
Subtotal	2,865	1,957
Interest and dividend income received	42	62
Interest expenses paid	(30)	(33)
Income taxes paid	(555)	(1,591)
Net cash provided by (used in) operating activities	2,321	393
Cash flows from investing activities		
Payments into time deposits	(478)	(13)
Proceeds from withdrawal of time deposits	252	60
Purchase of property, plant and equipment	(595)	(1,206)
Proceeds from sales of property, plant and equipment and intangible assets	24	675
Purchase of intangible assets	(203)	(394)
Other, net	142	(185)
Net cash provided by (used in) investing activities	(857)	(1,065)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(3,125)	(57)
Proceeds from long-term loans payable	2,933	182
Repayments of long-term loans payable	(60)	(56)
Repayments of lease obligations	(161)	(248)
Cash dividends paid	(914)	(988)
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	0	–
Other, net	(0)	179
Net cash provided by (used in) financing activities	(1,329)	(988)
Effect of exchange rate change on cash and cash equivalents	(885)	136
Net increase (decrease) in cash and cash equivalents	(749)	(1,524)
Cash and cash equivalents at beginning of period	16,212	16,757
Cash and cash equivalents at end of period	15,462	15,233

(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

(Changes in accounting policies)

(Changes in accounting policies that are difficult to differentiate from changes in accounting estimates)

The Company and its consolidated subsidiaries in Japan have switched to the straight-line method for calculating depreciation of property, plant and equipment starting from the first quarter of the fiscal year under review. Prior to this, the declining-balance method was applied predominantly, and the straight-line method used only for buildings acquired on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after April 1, 2016.

As the SATO Group works to expand business overseas, we have revised the Medium-term Management Plan and reviewed the depreciation method for property, plant and equipment in Japan accordingly. With the assets expected to perform stably, the depreciation method was therefore changed from the declining-balance method to the straight-line method to more accurately represent financial reality.

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

(Segment information)

I. Three months ended June 30, 2016 (from April 1, 2016 to June 30, 2016)

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

Unit: Millions of yen

	Auto-Identification Solutions Business (Japan)	Auto-Identification Solutions Business (Overseas)	Materials Business	Total
Net sales				
External customer sales	15,475	9,845	19	25,341
Intersegment sales and transfer	1,220	2,008	3	3,232
Total	16,696	11,853	23	28,574
Segment profit	341	710	(53)	998

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	998
Intersegment eliminations	(2)
Amortization of goodwill	(12)
Adjustment of inventories	63
Other adjustment	0
Operating profit on the consolidated statements of income	1,047

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

Not Applicable

II. Three months ended June 30, 2017 (from April 1, 2017 to June 30, 2017)

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

Unit: Millions of yen

	Auto-Identification Solutions Business (Japan)	**Auto-Identification Solutions Business (Overseas)**	**Materials Business**	**Total**
Net sales				
External customer sales	16,630	10,087	82	26,799
Intersegment sales and transfer	1,388	2,013	15	3,417
Total	18,018	12,100	97	30,217
Segment profit	862	369	(319)	912

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	912
Intersegment eliminations	(3)
Adjustment of inventories	(57)
Operating profit on the consolidated statements of income	851

3. Matters related to changes in reportable segments

The SATO Group has changed our reporting segments for the first three months from the former four geographical segments (Japan, Americas, Europe, and Asia and Oceania) to three business segments comprising Auto-Identification Solutions Business (Japan), Auto-Identification Solutions Business (Overseas), and Materials Business. This follows our full acquisition of DataLase, and is in line with our move to enter the new materials business full-scale this year and develop it as another core business alongside our existing auto-identification solutions business to create new customer value, based on the new Medium-term Management Plan.

Segment information for the three months ended June 30, 2016 has been prepared in accordance with the new segment classifications.

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

   (Significant impairment loss on non-current assets)
   In the Auto-Identification Solutions Business (Japan) segment, the carrying amount of business assets and goodwill that are losing profitability to yield sufficient return on investment has been reduced to their recoverable amount, with such reduction amount recorded as impairment loss.

   Accordingly, impairment loss of ¥46 million was recorded in the three months ended June 30, 2017.

   In the Auto-Identification Solutions Business (Overseas) segment, the carrying amount of goodwill that is losing profitability to yield sufficient return on investment has been reduced to its recoverable amount, with such reduction amount recorded as impairment loss.

   Accordingly, impairment loss of ¥412 million was recorded in the three months ended June 30, 2017.