

# INTEGRATED REPORT 2016





# Filling in The Last Inch™ to link data to everything

Living up to our corporate motto of Ceaseless Creativity, the SATO Group has always changed with the times, inventing the hand labeler in 1962 to simplify manual price tagging and developing the world's first thermal barcode printer in 1981 as POS cash register systems became the norm. In the 1990s, we shifted our focus to offering total solutions, using barcodes to attach information to items at customer sites, and allowing operational data to be collected and processed to IT systems to improve business processes. Although we are in the process of transforming from a provider of products to a provider of solutions, our business core of synchronizing the flow of goods and information remains unchanged from our early years.

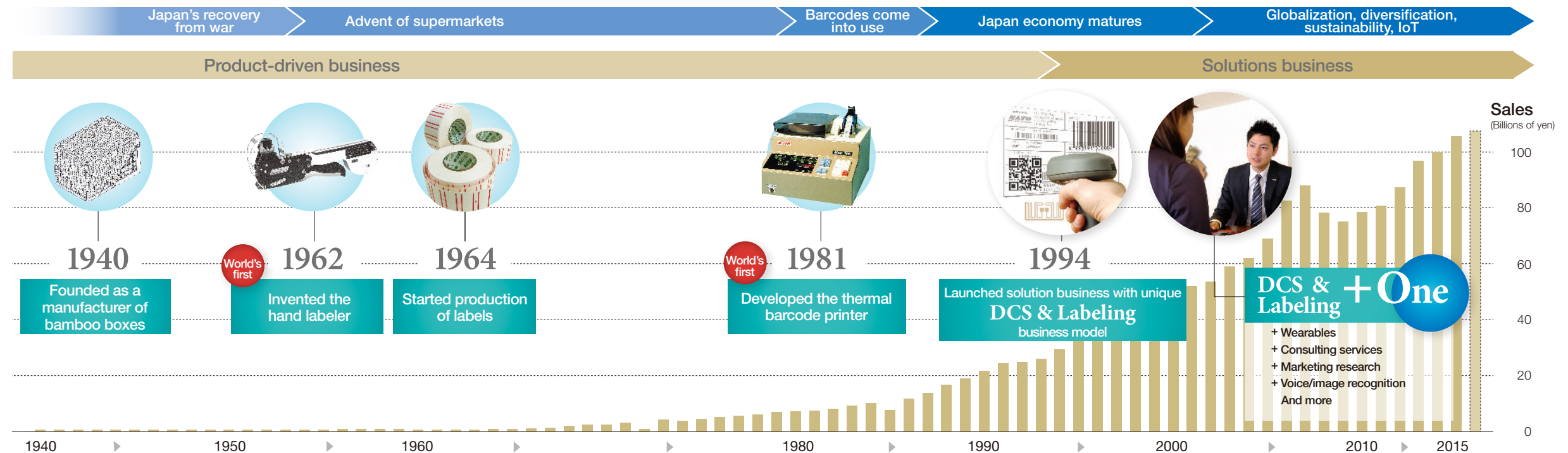
In the era of IoT (Internet of Things), where everything is connecting to the Internet, the advent of Big Data, AI and other revolutionary technologies brings endless possibilities. But to realize these new possibilities, someone must tag identifier information to each and every thing and collect small data accurately. It is this gap in the 'last mile' — or what we refer to as The Last Inch — that we close to connect things with IT infrastructure at actual business sites. This is SATO's mission.



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## Our Evolution and Innovations





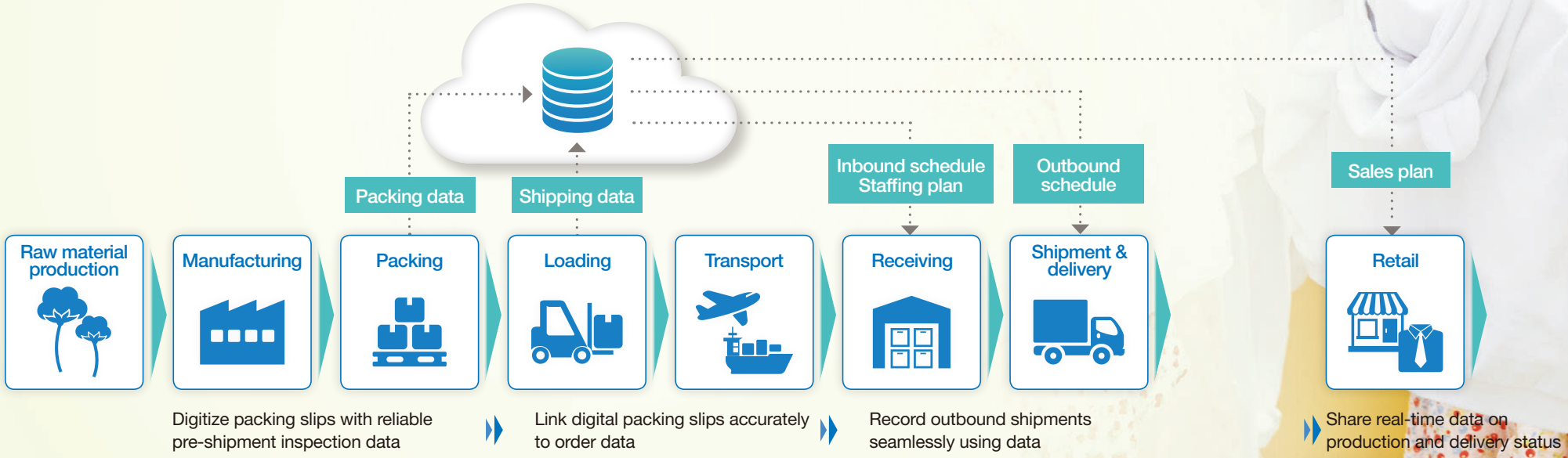
Business Model

SATO Group's core business

Getting the right item in-store, when you want it

Auto-ID technology enables automatic identification and collection of data with a quick scan of a barcode or RFID tags. SATO leverages this technology to link data to people and objects, delivering solutions that provide precision, labor and resource savings, peace of mind and environmental protection to customers in various industries. One example is inventory management for the apparel industry.

With the growing trend toward high-mix, low-volume production, many apparel companies are reducing cost by off-shoring manufacturing operations, resulting in cross-border, complex supply chains. SATO brings transparency to this intricate flow of goods and information by introducing Auto-ID technologies to visualize the manufacturing, shipping and warehousing processes, which allows real-time tracking of product status in production and transport and at the store to identify what products sell and to optimize stock accuracy. By linking data to people and objects, we help retailers stay one step ahead to ensure availability of the right items in the right colors and sizes to meet the needs of the end user.

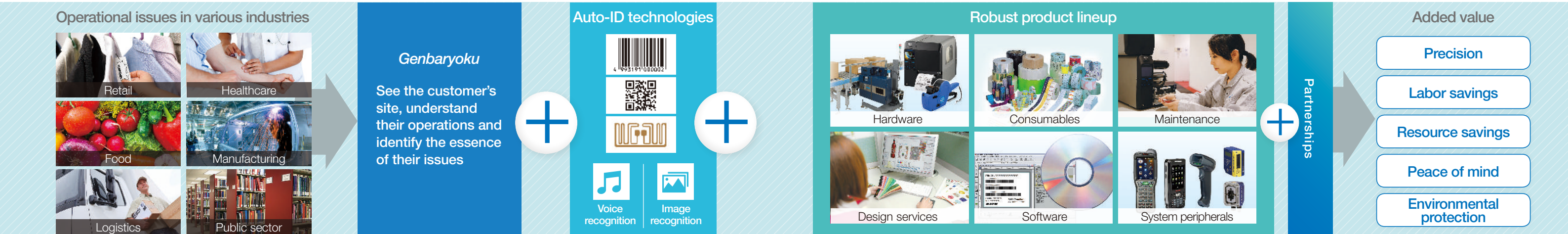


Establishing our unique positioning with Auto-ID solutions

The SATO Group harnesses Auto-ID technologies to offer the best solutions to each customer's worksite based on our unique Data Collection Systems and Labeling (DCS & Labeling) business model. SATO is the only company to offer end-to-end solutions featuring software development, hardware and consumables manufacturing, and on-site integration.

Proposing optimized Auto-ID solutions to customers

We visit our customers' places of business and work side-by-side with them to truly understand their operations, identify issues, and provide tailored products and services. We see this hands-on approach to problem-solving — what we call *Genbaryoku* — as our competitive advantage. We apply this together with the R&D, manufacturing, sales and maintenance know-how of our Group and synergies from our diverse external partnerships to deliver optimized solutions to customers.







**Kaz Matsuyama**  
President and CEO,  
SATO Holdings Corporation

**Ryutaro Kotaki**  
COO and Executive Vice President  
SATO Holdings Corporation

## A new management structure to speed strategy execution and achieve FY 2020 targets

For FY 2015, the SATO Group posted record revenues and EBITDA, achieving record sales and profits for the key overseas business. Operating income, however, declined due to the sluggish performance of the Japan business and increased costs resulting from yen depreciation and renewal of our ERP system. This led us to revise our medium-term management plan that we rolled out earlier in the year, making clear our determination to spare no effort revamping our management structure and speeding execution of strategies.

As challenging as circumstances have been, we have seen promising indicators in how we have continued to make strategic investments for future growth and were strongly reminded that SATO is an on-the-site type of organization from visits to offices across Japan and overseas. These indicators encourage us to improve business outputs and drive growth in the future.

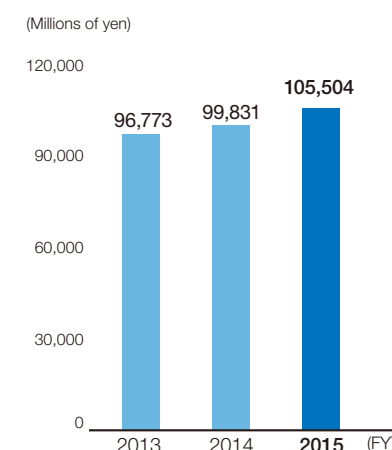
### Sales up, profits down in FY 2015: Flat growth in Japan versus on-target growth overseas

The Group generated ¥105.5 billion in net sales (up 6% from last year), exceeding the ¥100 billion mark for the first time, while posting record highs in consolidated EBITDA of ¥11.5 billion (up 5%), and overseas sales and profits of ¥39.3 billion (up 19%) and ¥2.6 billion (up 4%) respectively. Our Japan business, however, backtracked as consolidated operating income dipped to ¥6.4 billion (down 13%) after peaking last year at ¥7.4 billion. The slower-than-expected product transition to our new strategic CLNX label printer series, higher product procurement cost driven by currency headwinds, and depreciation expenses incurred from our revamped ERP

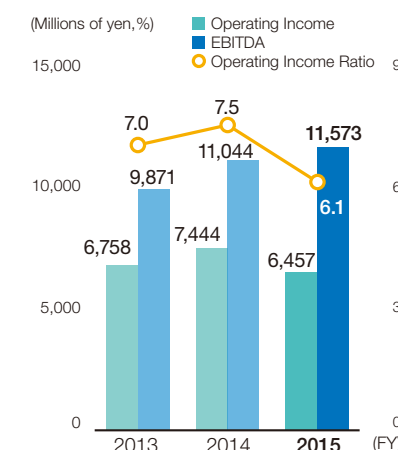
system are some key factors behind this retreat.

Our overseas business has made a strong showing, owing to profit gains from a powerful surge in CLNX sales (up 59%), the steady expansion of label businesses (including acquisitions), and cost reduction initiatives at factories. Yet as up-front R&D investment on our first software development startup in North America (SATO Global Solutions) inflated and economic slowdown in emerging markets impacted sales of Argox compact printers, successes overseas could not offset the decline in the Japan business.

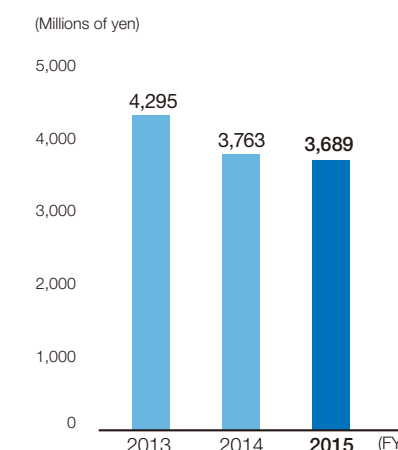
#### Sales



#### Operating Income and Operating Income Ratio / EBITDA

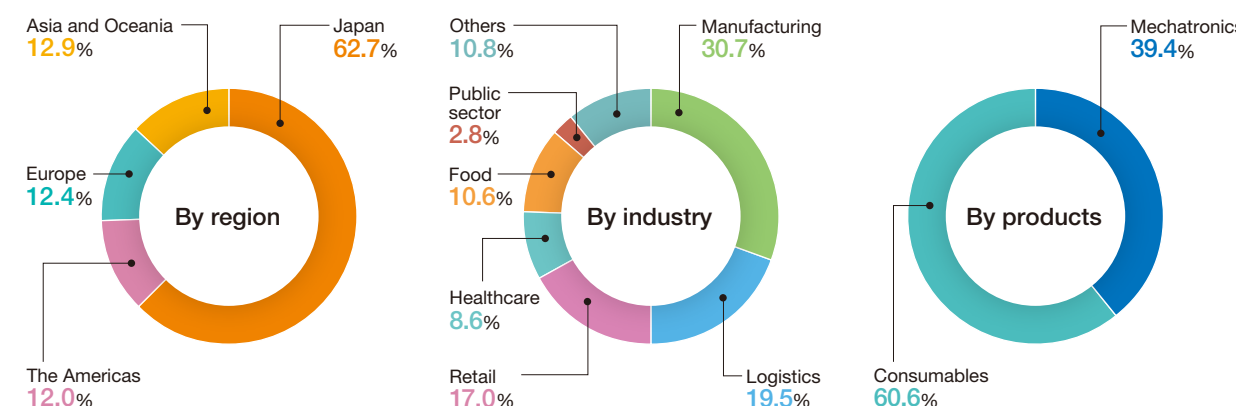


#### Net Income



\* EBITDA = Operating income (Earnings before interest and taxes) + Depreciation + Amortization

#### Sales Ratio Breakdown





Revising the medium-term management plan; changing management structure



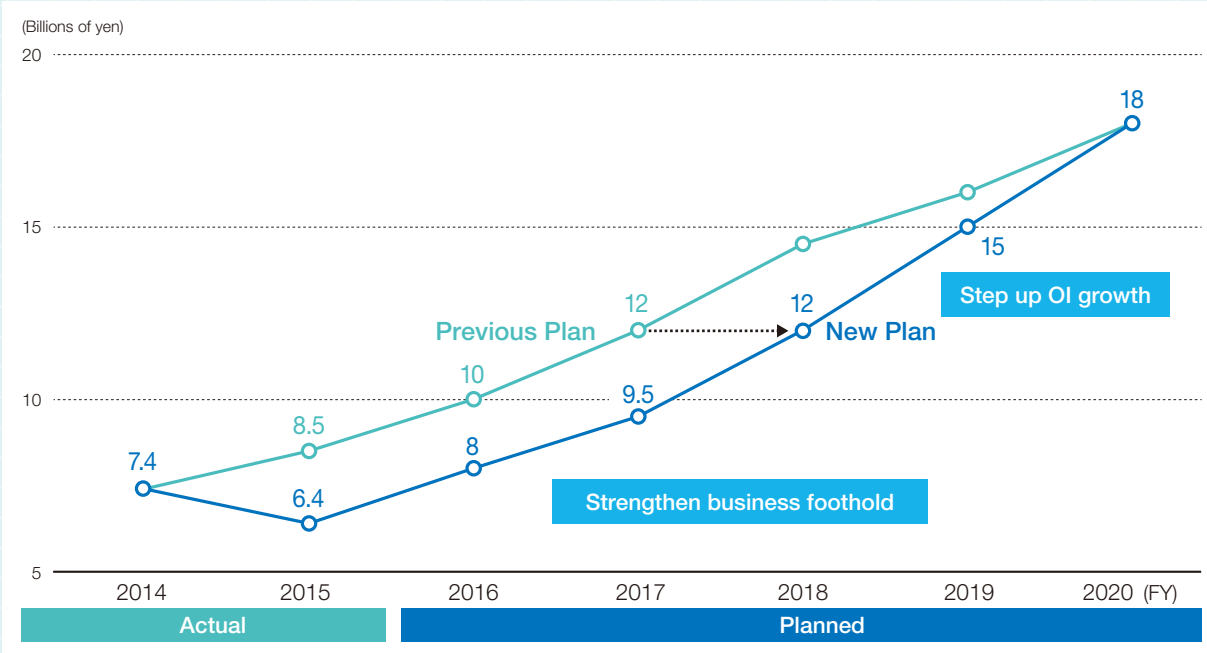
The SATO Group sets its business vision to become the leading and most trusted Auto-ID solutions company worldwide, and aims to achieve ¥150 billion sales, ¥18 billion operating income, ¥22 billion EBITDA, 50% or more overseas sales ratio, 12% operating income ratio, and 16% or more ROE by FY 2020. Taking into account our results from FY 2015, we revised our medium-term business plan roadmap, changing our management structure and assigning new owners to the different medium-term strategies to speed their execution.

All of our FY 2020 targets remain unchanged, but the operating income target of ¥12 billion that was set for FY 2017 has been pushed back a year to FY 2018. We also set the first three years of this plan as a period to solidify our footing for the big jump ahead, and the two following years as a period of rapid growth. While our focus from FY 2016 to 2018 will be on raising profitability of our core business in Japan, we will grow the now-robust overseas business even further, making strategic investments selectively and coherently to reach the pace of growth we are targeting for FY 2019 and thereafter.

One key management change we made involves the creation of the new Chief Operations Officer (COO) post that Ryutaro Kotaki fills while serving as SATO Holdings Executive Vice President. We will run the Group in unison with Kotaki focused on boosting profitability of our Japan business while I focus on driving the overseas business which is a pillar of our growth strategy.

Kotaki has long demonstrated strong sales leadership, steering the Japan business to success. Since 2012, he has managed key business areas of R&D and manufacturing where he made substantial accomplishments in generating innovations, reforming SCM processes, activating an engaged workforce, and increasing diversity. This extensive experience is why he is now tasked with optimizing our Japan business.

New Medium-term Management Plan (Operating Income)



New Medium-term Management Plan (FY 2016-2020)

Vision

Our vision is to be the leader in the Auto-ID Solutions Industry worldwide. We aspire to be the world's most trusted company by dedicating ourselves to creating solutions for precision, labor and resource savings, peace of mind and environmental protection.

Long Term Basic Strategy

Pursue globalization and maximization of customer value

Numeric Targets

	FY 2016	FY 2020
Sales	¥113 billion	¥150 billion
Operating income	¥8 billion	¥18 billion
Operating income ratio	7%	12%
EBITDA	¥13.4 billion	¥22 billion
Overseas sales ratio	40%	50% or more
ROE*	9.3%	16%

\* Return on equity

Strategies

Strategy 1	Build new growth/profit models in Japan
Strategy 2	Strengthen base business and develop emerging markets to work towards 70% overseas sales/profit ratio
Strategy 3	Pursue game-changing customer centric innovations and convert them into new businesses
Strategy 4	Create new solutions business centering on software and consulting services
Strategy 5	Deliver truly one-stop RFID solutions
Strategy 6	Expand our green business globally with speed
Strategy 7	Realize operational excellence to optimize group management

Strengthening solutions capabilities as the key to realizing ¥18 billion in operating income

Going by our medium-term plan, we aim for our Japan and overseas businesses to contribute equally in our Group's operating income target of ¥18 billion in FY 2020. For Japan, we are expecting ¥7 billion from base businesses and ¥2 billion from new businesses (including Specialase, which engages in direct digital marking using special inks and laser coding, and our green business). Overseas, we expect ¥6 billion from base businesses and ¥3 billion from new businesses (such as Specialase, our green business, and the software business). This is admittedly an ambitious target compared to our FY 2015 actuals, but we believe it is by all means attainable, considering our current EBITDA of ¥11.5

billion and the inherent potential of our growth strategy investments we have actively pursued since FY 2011.

For both Japan and overseas, our top priority is strengthening our base business, and this means strengthening our solutions capabilities; to switch from being a products provider to a solutions provider. "Solution" is used in many contexts. Our solutions aim to resolve customer issues, which we learn by going on-site rather than simply analyzing from behind our desks. This approach of hands-on problem-solving we refer to as our *Genbaryoku*. Leveraging *Genbaryoku* and Auto-ID technologies, we differentiate ourselves with our strategic positioning we are the

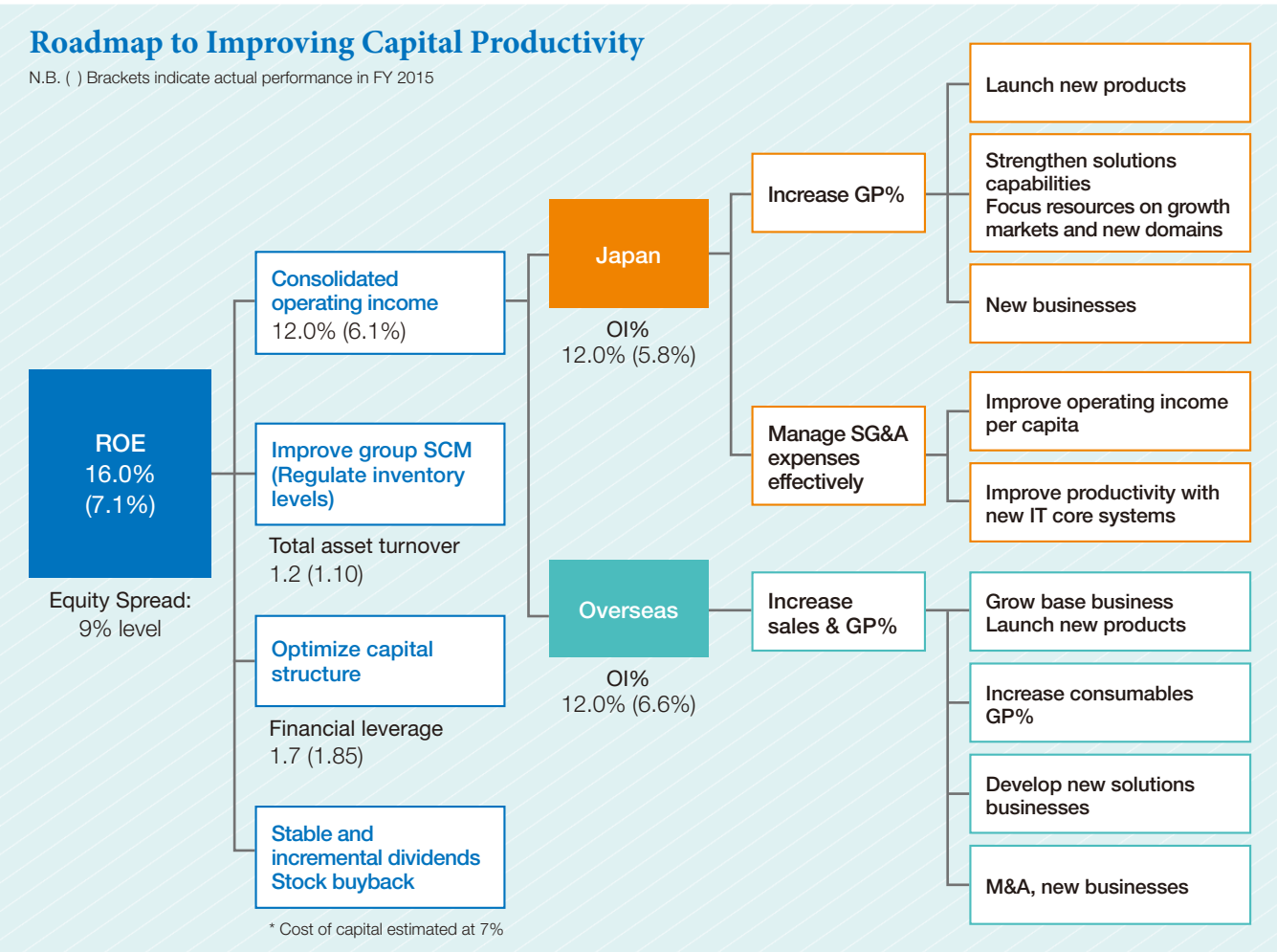


only company that fills in The Last Inch™, linking information, things, and people. With our strong on-site competencies, we take on the unique role of collecting and sending reliable small data from the site of operations to IT systems in this emerging era of IoT and Big Data.

Strengthening our solutions capabilities requires a different set of strategies in Japan and overseas. In Japan, we deploy our Data Collection Systems & Labeling (DCS & Labeling) business model to comprehensively offer printers, readers and software that match customer operations, as well as consumables and after-sales support. Our next step is to further evolve this business model to increase customer value. SATO's DCS & Labeling solutions are conceived and implemented by employees, who are the source of our *Genbaryoku*. This also means that many of such outstanding customer-specific solutions are left inside the heads of individual employees and not shared across the company. We need to collate our know-how into a database that can be deployed horizontally as standard solutions in an efficient manner. We will start applying this approach to marketing the CLNX strategic printer which is in its second year of sales in Japan this year. Solutions-based CLNX sales have steadily increased as the ratio of sales of new units and new end-use applications have more than doubled. We intend to further strengthen efforts within this approach to develop deep, long-lasting relationships with customers.

Overseas, the CLNX, which is now in its third year since launch, delivered sales growth of over 50 percent. Our next move will be to roll out our DCS & Labeling model to meet the market/user needs of each country and realize greater customer value and market share. We are already implementing in Asia because of the strong presence of Japanese companies in the region, and making similar efforts in Europe and the Americas. In early 2016, SATO America closed a large deal with a major local drugstore chain for a POP labeling solution which aims to enhance sales productivity of its chain stores. This was a case where SATO America — traditionally a hardware provider — found success with the DCS & Labeling model, which is already translating into repeat orders and contributing significantly to North America's sales performance this fiscal year.

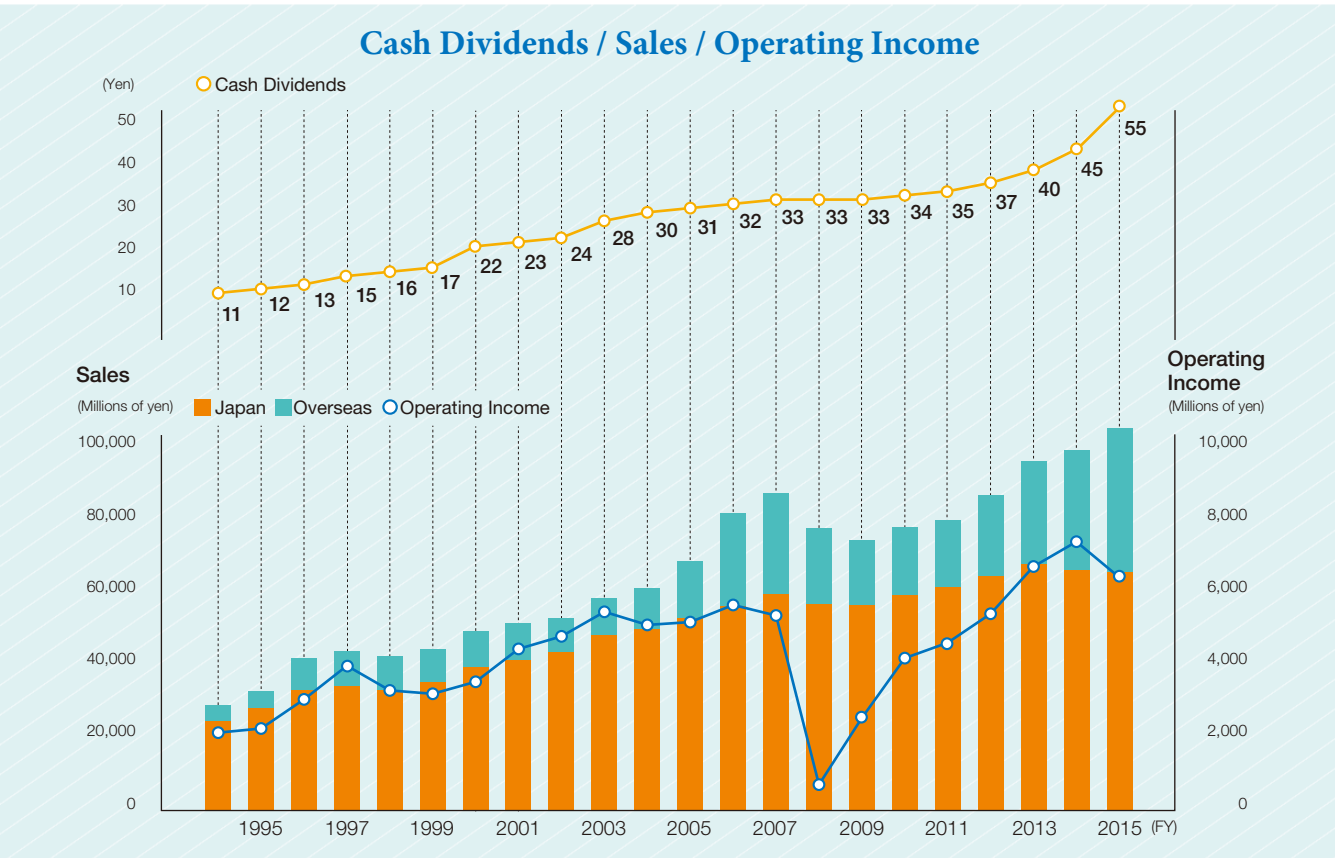
The primary labels (product labels) business that we have expanded through acquisitions in Russia, Brazil and Argentina is also exceeding our initial expectations in sales and profits, producing positive operating income after amortization of acquisition-related expenses. Going forward, we will continue to pursue acquisitions of highly esteemed primary label companies in emerging markets of high growth capacity. Meanwhile, we will integrate our primary labels business with RFID and other Auto-ID technologies to create products, services, solutions and business models capable of generating new customer value in IoT and Big Data.



Delivering stable, incremental dividends with our Four-way Returns to Stakeholders policy

The SATO Group shares profits from our businesses with shareholders, employees, society and the company to ensure that we garner and retain the trust of stakeholders as we thrive and prosper together. We have maintained or increased dividends every year since SATO was publicly listed on the Tokyo Stock Exchange, and we commit ourselves to this

basic policy as we seek to continuously grow our corporate value per share. Total dividend payout for FY 2015 was ¥55 per share, an increase of ¥10 per share compared to the previous fiscal year. Our current dividend forecast for FY 2016 stands at a full-year dividend of ¥60 per share.



Corporate values are inseparable from business — Building People, Building Business

Our founder Yo Sato defined our corporate motto, "Contributing to society through our core business in the Spirit of Ceaseless Creativity," from which formed the corporate values we constantly seek to instill in employees worldwide. We believe it is critical to live our values to continually deliver business results. Our people are the source of our core competence, *Genbaryoku*, and come before all else because they create customer values, which in turn builds our business. At SATO, we believe in Building People, Building Business. We have also employed our unique *Teiho*<sup>1</sup> internal reporting system for 40 years, providing an avenue for all employees to directly participate in the management of the company. We will continue to operate our business based on our corporate values and aim to become a company that will always be valued by society.

The SATO Group will strive to scale new and greater heights

in the years to come, and on behalf of our employees and the management, I thank our stakeholders and ask for your continued support.

1. An internal system allowing employees to submit original ideas, innovations and proposals to top management every day in limited word count. The system is designed to share information and improvement suggestions derived from work and interactions with customers.



## “Going Back to Basics” for Stable Growth and Profitability

**Ryutaro Kotaki**

COO and Executive Vice President  
SATO Holdings Corporation

While SATO’s stronghold Japan market still offers the Group leeway for greater growth, it’s clear — as the two consecutive years of negative year-on-year earnings have shown — that the conventional method of trying to sell by printers alone or with personal sales tactics has likely reached its limit. We need to go back to basics in this matured market and understand our customers once again, seek “Standardized customizations (commonalities in our customized solutions)” so that we could strengthen our solutions, and develop sales personnel, all aimed to advance our step toward achieving our medium-term objectives. These, I believe, are the missions I am tasked to fulfill.

### Aligning the team — a lesson learned from leading an unfamiliar unit

I had spent my entire career in sales until 2012 when I was asked to supervise a totally different field — product development & manufacturing — for four years. Product development back then was so complex and involved so many people, and while everyone shared the same objective, they all did their own thing, so what was ultimately developed didn’t quite please the customer as we expected it to, leaving everyone unhappy. That was the problem I saw as I talked face-to-face with each and every person involved. So I set our development objective as, “Develop products that amaze and excite customers,” and reestablished the team into practicing a culture where everyone goes out to see the

site and be fully customer-oriented in their work. And that was how we came up with innovative products like the universal CLNX printer that anyone, anywhere regardless of language or infrastructure can use with ease, or the PW208 mobile printers that boast the industry’s highest-level print speed and durability. At the same time, we revised our development and manufacturing processes, reducing the number of parts to drastically cut down on lead time and cost. Our relearning of such knowledge on upstream sites, together with all the growth that my team as well as myself experienced in the process, would prove vital as we go about reviving our Japan business.

### Motivating ourselves to meet changes on site

My first step is to direct our teams to “go back to basics” and face our customers once again — i.e., understand their work sites and stay customer-centric. I want to reemphasize this true fundamental and make sure that everyone, including non-sales personnel, practices it.

While the Japan market has matured, it still offers numerous opportunities for growth, as we saw with the rapid rise of e-commerce which dramatically changed how goods reach

end users, how they are managed and how fast they move. We must continue to drive the Group’s growth in Japan by accurately identifying these opportunities and allowing each and every SATO salesperson in Japan to devote their motivation and full potential into these areas. Actions that I specifically prescribe in driving this growth are: **① Strengthen our solutions**, **② Strengthen our marketing effort**, and **③ Develop human resources and the organization**.

#### ① Strengthen our solutions

We have always resolved customers’ on-site pain points by offering customized Auto-ID solutions that are made-to-order for each customer. Yet as customized as they are, they always share certain commonalities that please customers of the same industry. If we could expose and analyze these preferences, hear out other requests and incorporate them into a marketable solution (“standardized customization”), we could develop win-win relationships with many more customers. By seeking collaborative partnerships with other companies rather than trying to do everything on our own, we enhance our solutions and transform ourselves into a solutions provider.

We now provide solutions in our primary labels (product labels) business as well, offering marketing analyses on the customer’s product and suggesting ideas for appropriate label designs. This new business model of assisting promotion of a product changes how we sell labels to whom and redefines our profit sources while providing customer value to our business customers.

#### ② Strengthen our marketing effort

The SATO Group boasts close to a 40-percent share in Japan’s Auto-ID industry and maintains an advantage in terms of the number of customer accounts and accumulated know-how. But whether or not we are taking full advantage of information on new and existing customers that comes in from our contact points is still a major concern. We must accurately pick up on the ever-changing needs that customers have on-site and identify what to propose to whom and when, to deliver results and heighten customer satisfaction. I will make sure that every company and division — including sales, services/support, marketing and group companies — with direct or indirect contact with our customers can come to use that information, collaborate and develop synergic effects.

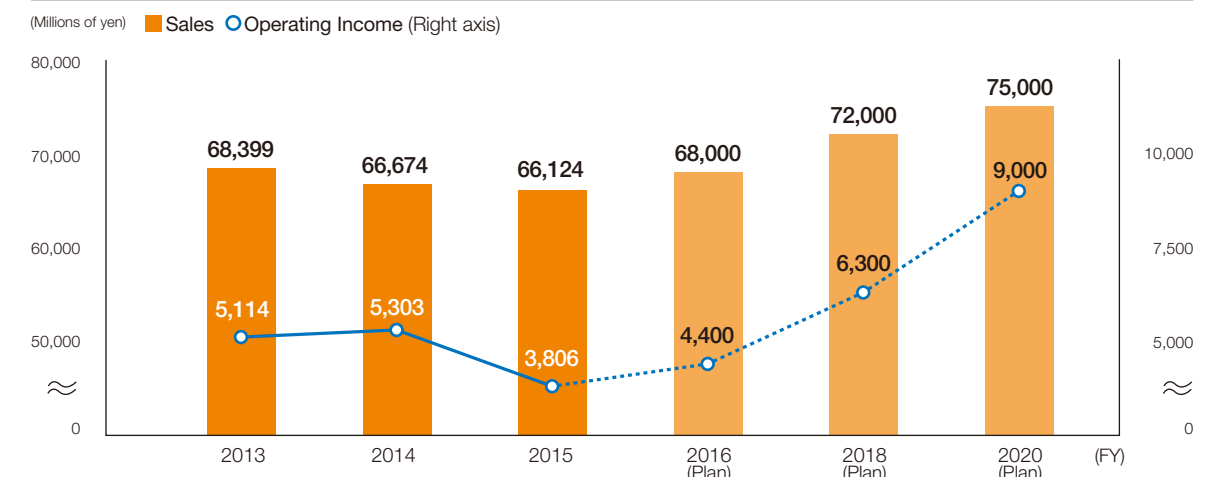
#### ③ Develop human resources and the organization

As people are the source of our business, our Group cannot achieve sustainable growth without developing our human resources. To allow individuals to work autonomously with speed and the team to continue accomplishing successful results, we completely reformulated our human resource program aimed to train domestic sales staff. The new program defines what skills are necessary in terms of product knowledge, problem solving (suggesting solutions) and communication, and helps us generate a talent development roadmap that shows what training or professional certification programs best serve each individual. Keeping the program consistent with the medium-term objectives of the company and goals of each department or sales office, we see it as a means to develop talent and vitalize the organization in a planned way.



These three actions, when executed, will particularly strengthen our core businesses in Japan, which, with our continuous efforts to reduce cost, help us achieve the Group’s operating income target. Aligning our sales operations to go back to basics and focus on the customer to create solutions that feature “standardized customizations,” we will strengthen our solutions business and speed our pace toward achieving our FY 2020 operating income goal of 9 billion yen for Japan, which is spelled out in the medium-term management plan.

### Sales and Operating Income in Japan





# One SATO, Worldwide

The SATO global business is overseen from Japan with authority delegated to regional headquarters to ensure an emphasis on synergy and speed as the Group seeks to maintain stable profitability outside of Japan. The individuals responsible for driving business in each RHQ explain their recipe for success.



## International

### Regional focus, shared solutions

SATO International was established in 2015 with the mission of accelerating the Group's global growth strategy. It oversees all aspects of global business, driving Group synergy and supporting the development of sales strategy. Its dedicated sales teams are working with Group companies to implement market segmentation strategy, leveraging global strategic products and consumables to boost the Group's solutions capability and meet the diverse needs of global customers. SATO International is tasked with growing overseas business to 50% or more of Group sales and profit.

**“Even with unpredictable geopolitical and macroeconomic shocks such as dramatic exchange rate fluctuations, I am confident that we can achieve our SATO Group medium-term objectives through teamwork and synergy. In addition to region-driven DCS & Labeling business models, the SATO global team manages multiple portfolios from our software solutions business to primary labels and inline digital printing, and proactively seeks out external partnerships to realize sustainable growth.”**

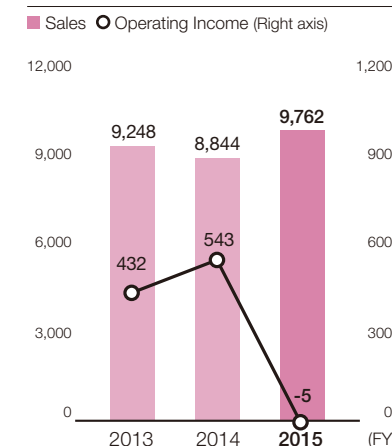
#### Yasuhiro Tanabe

Executive Officer, SATO Holdings;  
President, SATO International



## North America

### North America (Millions of yen)



### A multi-faceted growth strategy

The large size and mature economy of the U.S. necessitates strong relationships with distributors and resellers to capture market share and achieve growth. SATO America showed its commitment, winning Best Channel Vendor award for Product Reliability by Business Solutions Magazine for the fourth time in 2016. It aims for sales growth in food and healthcare and is capitalizing on the re-emergence of RFID in retail and itemized tagging to meet a wider range of client needs.

A strategic investment for the Group, Florida-based Innovation Integrators™ SATO Global Solutions (SGS), drives SATO's software and solutions development to support its vision of becoming a global Auto-ID solutions leader. SGS develops Internet of Things solutions that are designed to unleash the power of data for global retail customers. SGS leverages the Acuitas Digital Alliance comprising global technology leaders Intel, BT, RetailNext and Nexgen to deliver value-added, data-driven, integrated IoT solutions.

**“North America addresses key pillars of the FY 2016-2020 medium-term plan, including growth of SATO's revenue overseas and software-based solutions. Toward that end, we will leverage the Acuitas Digital Alliance to successfully develop IoT solutions for global brands.”**

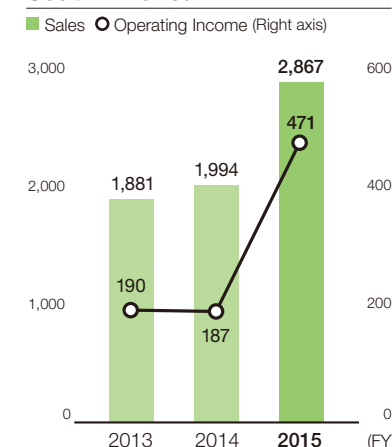
#### Goro Yumiba

North America Executive Head; Chairman and CEO,  
SATO America / SATO Global Solutions



## South America

### South America (Millions of yen)



### Becoming a regional player

The SATO business in South America contributes to key Group strategies of developing emerging markets and increasing overseas sales and profit ratio. It has a presence in the two largest markets in the region — Argentina and Brazil — where Group companies Achernar and Prakolar are known for high quality primary and pressure-sensitive labels. Operating in a difficult economic environment, these companies deliver strong growth and profits thanks to their top-tier customer base and printing expertise. SATO is focused on integration of these companies to optimize its ability to support regional projects and global customers.

Meanwhile, SATO Brazil and SATO Argentina will take advantage of these newly opened doors to systematically pursue regional accounts in the local market, in addition to existing sales channels, to increase SATO's brand recognition as a one-stop DCS & Labeling solutions provider.

**“We are actively seeking to capture Group synergies to enhance our capabilities, and strive to add value with problem-solving. Our teams are ready to serve key local and global customers in the region.”**

#### Maria Olcese

Executive Officer, SATO Holdings;  
South America Head; Managing Director, SATO Argentina;  
President & General Manager, Achernar







## Europe

### A proactive approach

After over a decade of operating losses, the SATO business in Europe became profitable in FY 2013 through successful organizational restructuring. Moving production of consumables from Germany to Poland in 2010 improved profitability, and in 2016 it opened a new, world-class labels plant and distribution center in Poland to meet the strict quality requirements of pharmaceutical, food and automotive customers. SATO now aims for continuous, sustainable growth in Europe by shifting to high-value-added business through strengthening of ties with business partners, system integrators and technology partners. The growth of e-commerce and the wide adoption of traceability systems in Europe has generated business opportunities as SATO seeks to deliver value-added Auto-ID solutions for the logistics, retail and food segments.

For the labeling business, the Russia-based primary labels company Okil has given the Group a foothold in Russia and been a profit engine for the region.



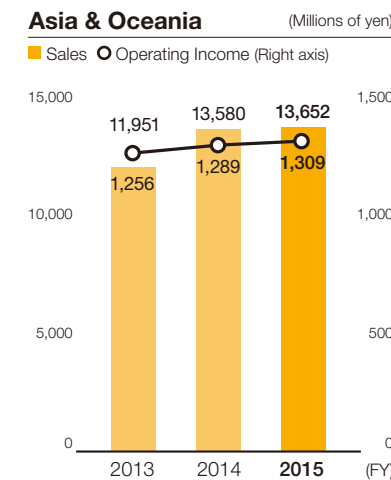
“By building ties with partners, I plan to collaborate to build success cases that can be reproduced elsewhere across the Group. This will allow Europe to take a leading role globally in terms of one-stop traceability solutions to contribute towards the FY 2016-2020 medium-term objectives.”

**Tetsushi Kondo**

Europe Head; Managing Director, SATO Europe



## Asia & Oceania



### Asia

### Streamlining and taking a new path

In Asia, SATO's track record of labor-saving Auto-ID solutions has earned the trust of top-tier Japanese manufacturers in the region and fostered long and close customer relationships across 10 countries and regions. In Southeast Asia, economic growth and a burgeoning middle class present growth opportunities in solutions that provide safety and peace of mind to local and global corporations in the food, retail and healthcare fields.

In China and Singapore, where rising labor costs are a challenge, SATO provides automation and labor-saving solutions for manufacturers, retailers and logistics companies. SATO's hardware manufacturing units in Malaysia, Vietnam and Taiwan have also successfully implemented cost-cutting measures to bolster the region's profitability.

Taiwan-based low-end printer manufacturer Argox has not delivered adequate profits due to the emergence of low-priced Chinese competitors. SATO will counter by providing package solutions in these markets.

“In the past, our group companies in Asia have operated independently due to the diverse needs in this region. I plan to meet our medium-term targets by optimizing region-wide cooperation to standardize applications, products and solutions with the trends of the entire region in mind.”

**Hayato Shindo**

Asia Head; Managing Director, SATO Asia Pacific



### Oceania

### Trusted partners empowering decisions

In Oceania, SATO utilizes an engagement model which provides innovative, on-site customer service as a trusted advisor.

In New Zealand, building the foundations of the DCS & Labeling business model was a long process. Already a leader in data capture and automation with application development prowess, the acquisition of Jenkins Labels' labels business bolstered SATO's primary labeling capability, enabling it to offer unique value-added proposals. SATO now seeks to generate global business by servicing local customers in the primary sector industry that have complex and far-reaching supply chains.

In Australia, SATO has wide capabilities, from healthcare and Auto-ID to technological know-how. The Sydney metropolitan area is the global R&D center for PJM RFID technology, which makes reliable and dynamic high speed identification of large volumes of tagged items possible. PJM is utilized widely in the orthopedic implants market here. SATO is focused on growing its healthcare presence in Australia, driven by a local healthcare company that is led by a hematology and blood transfusion specialist. In Auto-ID, it seeks growth by providing productivity-boosting solutions to offset increasingly high labor costs.

“We will focus on sharing our knowledge and management platforms to deliver a standardized customer service experience across the region. We are developing our solutions business to move beyond the concept of business payback and towards the concept of business furtherance.”

**Kerry Langley**

Oceania Head; Managing Director, SATO New Zealand



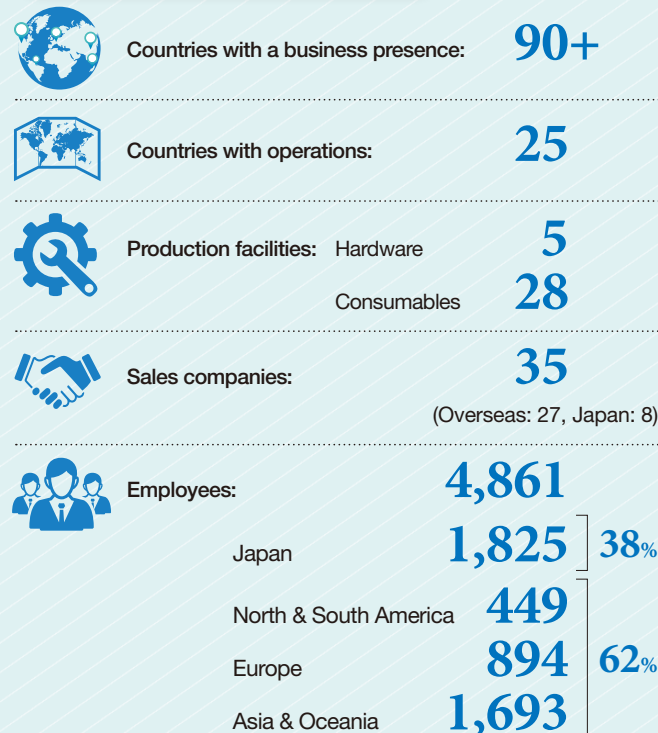
#### Recent M&As

- 2012 Argox Information Co., Ltd.**  
Entry level printers (Taiwan)
- 2012 Achernar S.A.**  
Primary labels (Argentina)
- 2013 Magellan Technology Pty Ltd (SATO Vicinity Pty Ltd)**  
PJM RFID development (Australia)
- 2014 Okil-Holding, JSC (75% stake)**  
Primary labels (Russia)
- 2015 Jenkins Labels labeling business (SATO New Zealand Ltd.)**  
Primary labels (New Zealand)
- 2015 Prakolar Rótulos Autoadesivos S.A.**  
Primary labels (Brazil)

#### Investments

- 2013 Nexgen Packaging, LLC (14% stake)**  
Brand ID and packaging (U.S.A.)
- 2015 DataLase Ltd (33.3% stake)**  
Inline digital printing (U.K.)

#### SATO Group by the numbers





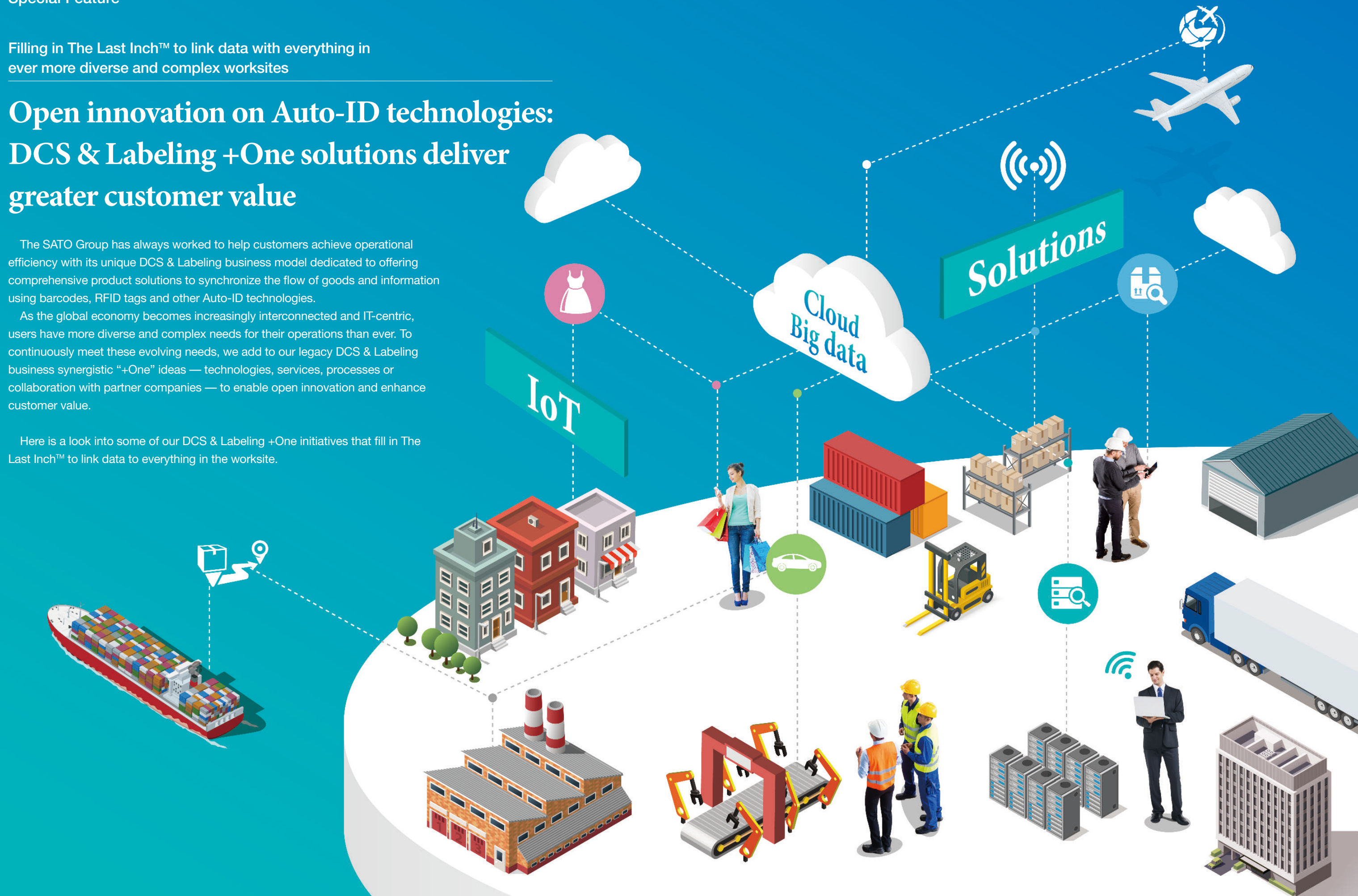
Filling in The Last Inch™ to link data with everything in ever more diverse and complex worksites

# Open innovation on Auto-ID technologies: DCS & Labeling +One solutions deliver greater customer value

The SATO Group has always worked to help customers achieve operational efficiency with its unique DCS & Labeling business model dedicated to offering comprehensive product solutions to synchronize the flow of goods and information using barcodes, RFID tags and other Auto-ID technologies.

As the global economy becomes increasingly interconnected and IT-centric, users have more diverse and complex needs for their operations than ever. To continuously meet these evolving needs, we add to our legacy DCS & Labeling business synergistic “+One” ideas — technologies, services, processes or collaboration with partner companies — to enable open innovation and enhance customer value.

Here is a look into some of our DCS & Labeling +One initiatives that fill in The Last Inch™ to link data to everything in the worksite.





## Driving the development of Auto-ID solutions, addressing problems common to each industry

In Japan, we are moving from individual solutions for specific customer problems to standardized solutions for entire industries, including transport and logistics, manufacturing and retail. This allows us to propose customer-centric ideas to even more customers with speed.

One example is our Visual Warehouse solution, which we developed to cater to new needs of Japanese logistics providers triggered by e-commerce growth.

### A 3D mapping and voice navigation system to improve efficiency at logistics centers

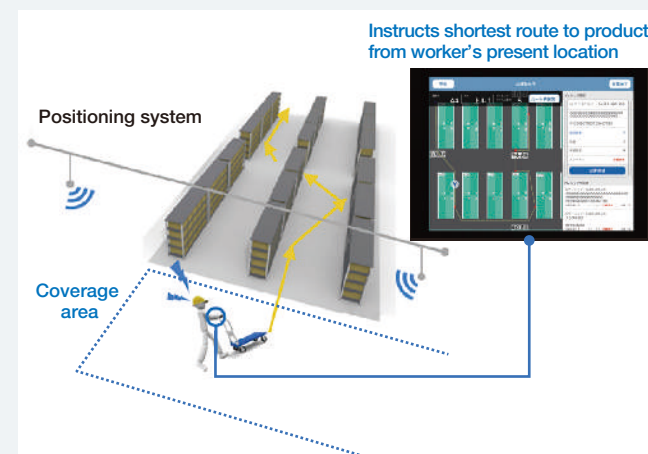
The scale of e-commerce is growing every year, having expanded in Japan by about 80% from ¥7.8 trillion in 2010 to ¥13.8 trillion in 2015 (up 7.6% from 2014)<sup>1</sup>. With more online retailers offering same-day deliveries, logistics providers are now required to fulfill their services with greater focus on speed and convenience. With more and more products, warehouse operators find themselves grappling with the complexity of inventory management, lower worker productivity, and labor shortages. It is for these users that SATO launched Visual Warehouse, a solution to help improve accuracy and efficiency in incoming/outgoing shipments and itemized storage.

Traditional e-commerce fulfillment — picking, packing, and shipping single items and small volume orders to consumers — is extremely labor-intensive. This new solution can support and optimize e-fulfillment with its ability to identify and present the shortest picking route via a virtual 3D map displayed on a

wrist-mounted wearable device. In addition to a route mapping feature, the solution also gives simple voice guidance instructions like, “Turn right at the next aisle” or “Picking quantity changed to XX.”

SATO's solution lineup for logistics customers already includes inventory management systems to inspect and take stock of inbound/outbound goods. By adding “+One” value of third-party speech recognition, indoor positioning and virtual 3D mapping technologies to our existing item inspection system, the result was an innovative and unique solution unlike any before.

Workers in conventional warehouses have to find and pick items on their picking lists relying on shelf numbers. They are unable to handle on-the-spot order changes, and varied levels of experience lead to inconsistencies in picking speed, which impede productivity.



### Delivering Auto-ID supply chain management consulting services

Established in 2015, SATO Solution Architects is a consulting company that provides high-level logistics insights from a management perspective to make improvements across the entire supply chain.

We work closely with Japan sales teams to support customers primarily in the logistics, manufacturing, and distribution industries by offering comprehensive services ranging from identifying issues across supply chain management (SCM) to driving business process changes, developing IT infrastructure plans and implementing new systems.

Combining our consulting expertise with the SATO Group's core strengths in Auto-ID technologies and expanding the scope of existing services, we aim to optimize customer operations and SCM to contribute to greater business efficiency for our valued customers.

DCS & Labeling + One Consulting



**Kenjiro Akikawa**  
President, SATO Solution Architects Co., Ltd.



DCS & Labeling + One  
Voice recognition  
3D mapping  
Wearables

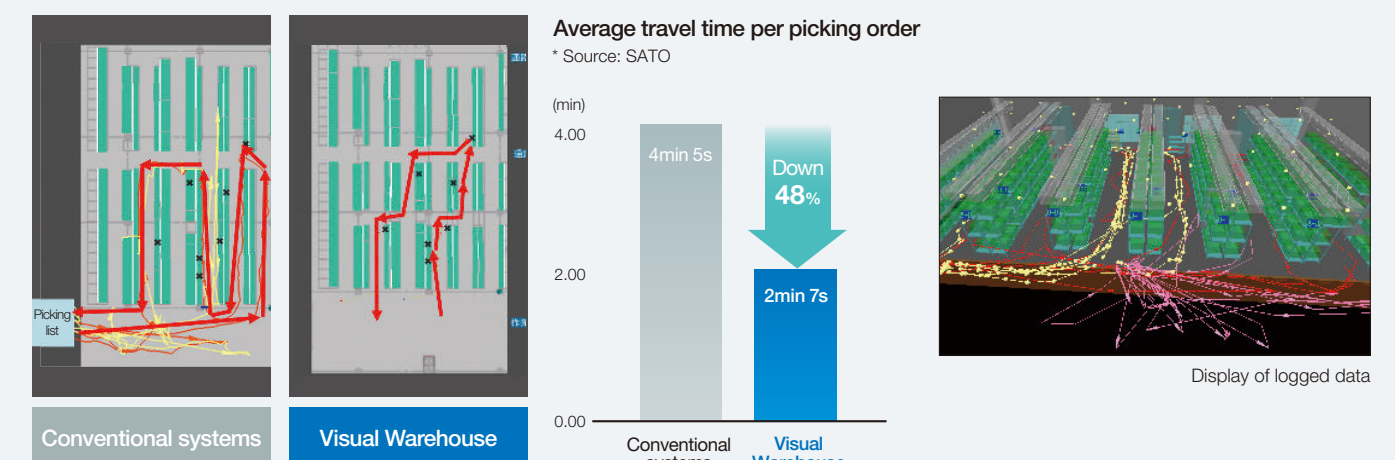
But with Visual Warehouse, workers receive picking data on their wearable devices and follow images and audio instructions to pick the right items. They can deal with order changes flexibly and have both hands free to work more efficiently. As the solution tracks the precise location of workers from the UWB (Ultra Wide Band) tags on their hats to navigate them effortlessly from their present locations to their picking destinations in the shortest route, it allows even the less experienced worker to fulfill order picking with speed.

Performance tests we carried out found that the use of Visual Warehouse helped reduce average travel time per picking order from 4 minutes and 5 seconds to 2 minutes and 7 seconds. This improves productivity throughout the entire warehouse operation of storing, receiving and shipping out products by 30%.

By analyzing the operation data logged, the operator can

change warehouse layout or reassign workers' pick zones to improve picking routes and shorten the time it takes to ship products out. SATO Solution Architects plans to work with SATO Corporation to start providing analytics and consulting services using data logs from Visual Warehouse.

<sup>1</sup>. METI e-commerce survey published in June 2016





# Primary labels + Auto-ID technology = Unprecedented services that fill The Last Inch™



One of the SATO Group's seven strategies in the FY2016-2020 medium-term objectives is to "Strengthen base business and develop emerging markets to work towards 70% overseas sales/profit ratio," for which multiple actions are already under way. One area of emphasis is our primary labels business.

## Establishing a global primary labels network

We estimate primary labels — labels that adorn the containers/ bottles of products such as food, cosmetics, medical products and liquor — to be a five-trillion-yen market worldwide<sup>1</sup>. As we expect market growth in target countries, we strive to enhance production of primary labels and raise their productivity, quality and cost competitiveness.

And in order to develop a production network capable of delivering quality primary labels consistently to customers worldwide, we are globally active in acquisitions of and partnerships with companies that manufacture quality, value-add labels as their stronghold business.

Achernar (Argentina), Okil (Russia) and Prakolar (Brazil) are companies that we have brought into the SATO Group from 2012 to 2014. They are the market leaders in manufacturing and selling primary labels in their respective countries, and have a customer

base of top-tier global corporations that they now refer each other to and take advantage of to increase sales.

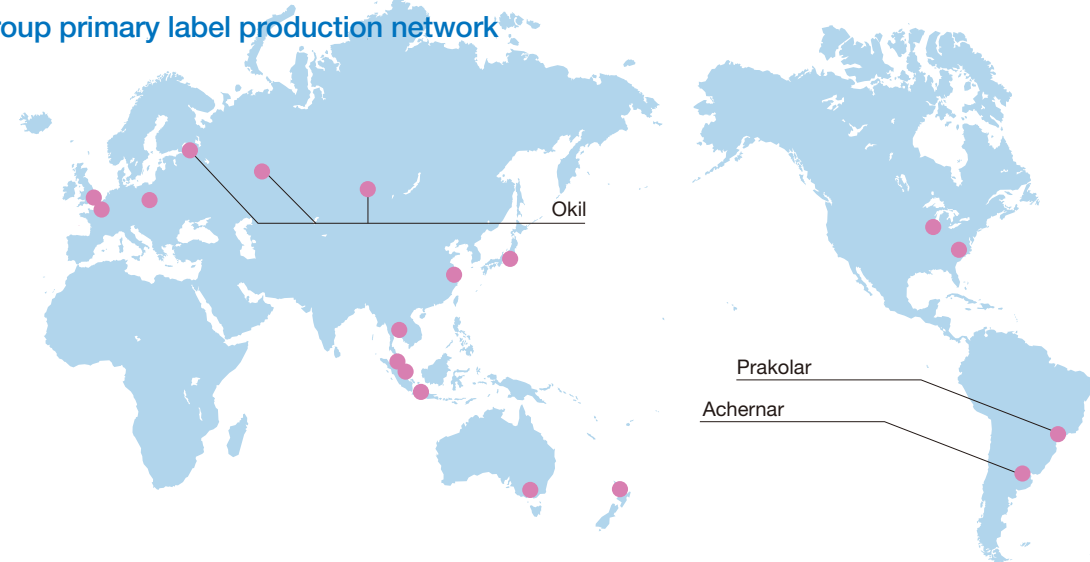
As our network expands, we also share the latest technology amongst our Group companies to heighten our competitive advantage.

1. SATO estimate



Primary labels

## SATO Group primary label production network



## Marketing research for better design proposals

Our primary labels business in Japan is a collaborative effort between specialized sales teams, designers and printing plants nationwide to provide the best materials and designs for each customer. SATO, differentiating itself from competi-

tion, expanded the scope of its labels business by establishing Design Promotion Co., Ltd. in 2015 to propose designs for product packaging and in-store promotions based on sound marketing research.



Aya Watanabe  
President, Design Promotion Co., Ltd.

We conduct market research on our customer's product and use the analytics to provide consulting on product packaging and in-store displays that would increase sales.

Primary labels commonly require no special printing techniques, so they tend to commoditize and end up in a price war. From my experience visiting customers for label sales, I was firmly convinced that we could deliver greater customer satisfaction with designs that were proven sellers, or better still, address not just the product label but all aspects of packaging as well. This belief that such value would differentiate us from others led us to establish the company.

## The potential of "hybrid" Smart Labels: Primary labels + Auto-ID technology

The SATO Group is broadening the scope of its primary labels business, seeking possibilities of equipping labels with Auto-ID technology to deliver unique solutions no other company can offer.

With IoT (Internet of Things), businesses are now able to collect and utilize data in production management and product development. The sheer count of "things" (devices) that will connect to the Internet will exceed 50 billion by 2020<sup>1</sup>, and this digitization and ensuing automation expect to bring rise to new services.

We will likely see a variety of IoT-based services in our daily lives in times to come. Imagine a refrigerator or a kitchen cabinet that automatically checks what ingredients we have and sends us dinner recipes right to our handheld device. Should we be close to running out of something, orders could be



placed and even paid for automatically. This might be the kind of world we will come to live in.

For such IoT-generated services to become a reality, we need to tag identification data to each and every thing and ensure that each piece of "Small Data" is tallied accurately. The SATO Group, with our niche in both primary labels and Auto-ID technology, seeks to deliver hybrid Smart Labels and many more "+One" innovations for the future to become the partner of choice for customers in this coming IoT world.

1. Japan Ministry of Internal Affairs and Communications "White Paper 2015 Information and Communications in Japan"

### TOPICS

## World's number one in letterpress printing

At the 2016 Label Industry Global Awards, SATO was awarded Best of the Best in the Letterpress category. The Best of the Best Awards are presented to L9 World Label Awards winners in five printing categories that include offset litho, flexographic and letterpress.



Best of the Best winning label



The SATO Group's Environmental, Social and Governance (ESG) commitments are rooted in our mission of creating a better and more sustainable world through our business.

## SATO Values

### Our Mission

Our mission is to create new value for our customers through products and services of superior quality, and to contribute towards a better and more sustainable world.

### Our Vision

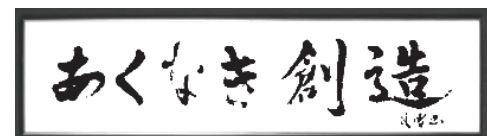
Our vision is to be the leader in the Auto-ID Solutions Industry worldwide. We aspire to be the world's most trusted company by dedicating ourselves to creating solutions for precision, labor and resource savings, peace of mind and environmental protection.

### Our Credo

- We inspire changes, new ideas, and the courage of promoting customer-centric innovation in the spirit of Ceaseless Creativity.
- We seek to be true professionals by constantly striving to exceed the expectations of our customers.
- We see things as they are, and do the right thing right away.
- We show respect for all individuals, extend trust to each other, and work together as one cohesive team.
- We enable a vibrant and open-minded workplace, eliminating the formalities that cause "Big Company Disease."
- We share the returns from our business with our four stakeholders: shareholders, employees, society and the company.



## Corporate motto

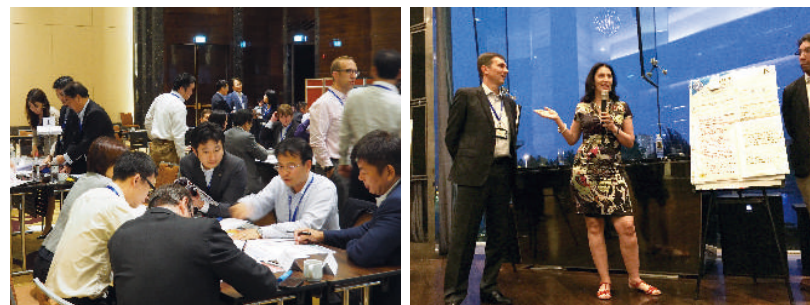


"Ceaseless Creativity" is the corporate motto encapsulated by our founder Yo Sato in 1969 from the idea that individuals and corporations equally bear the mission to serve society through self-improvement. At SATO, we strive to value the importance of collaboration and creativity in our daily work.

## Instilling corporate values worldwide

We launched the SATO Values Office in April 2016 under the direct supervision of the CEO to instill SATO Values and drive understanding of our management principles among employees worldwide.

The SATO Global Summit was held in July 2016 in Vietnam with some 100 group company and business heads in attendance from around the world. There was discussion on various topics including our FY 2020 medium-term objectives and strategies, and the SATO Values Office hosted a workshop on understanding corporate values and putting them into practice.



Global workshop on instilling corporate values

## The Spirit of SATO

Our book, *The Spirit of SATO* compiles guidelines that serve as our shared code of conduct for employees. Comprised of five chapters — "Basic Management Principles," "How True Professionals Work at SATO," "SATO's Rules for Management," "Ideas on Management," and "The SATO Way" — the book is published in eight languages to share with all Group employees worldwide.

### Chapter 3: SATO's Rules for Management

- Stick to our trade
- Hire all types
- Don't form factions or develop informal allegiances
- When departments are in conflict, swap their managers
- Know how to inspire and be inspired
- ... and more



The Spirit of SATO

### TOPICS

## SATO recognized by METI as one of Japan's Most Cherished Companies

Recognized for our *Teiho* system and initiatives based on corporate values, SATO received the most prestigious Ministry of Economy, Trade and Industry Award at the sixth annual Japan's Most Cherished Companies Award (Sponsor: Management Society for Promotion of Workplace Well-Being) in 2016. The award honors companies that prioritize the satisfaction and happiness of employees and their families, external contractors and suppliers, customers, the local community, shareholders and more.





## Driving changes in HR development based on SATO Values to create a company where employees can thrive



### Human Resource Development at SATO Group



**Shigeki Egami**

Executive Officer and Chief Human Resources Officer (CHRO), SATO Holdings Corporation

#### ● Building People, Building Business

Since assuming the position of CHRO in November 2015, I have renewed my determination to build people who build our business. I think most SATO employees have love and passion for the company and our business. They take pride in working behind the scenes to support supply chain processes, even though it may not be as glamorous as other jobs. SATO employees embrace the culture of continuously seeking out new ideas in the spirit of Ceaseless Creativity which is at the core of our corporate values, and I think the strength of the individual is the driving force of our competitiveness. Our business and people are inseparable, and we have shared our important commitment of “building people” to “build business” with all regional leaders at our Global Summit in July 2016.

#### ● Flexible HR management based on standard systems

So, what are our strategies? It really comes down to developing the right systems and mindset with the perspective of empowering employees and allowing them to realize their full



#### Outline of HR strategies

- 1 Set clear expectations for employees (in terms of applying SATO's corporate values, business model and core competence in *Genbaryoku*) and conduct recruitment, training, performance appraisal for promotion, and career support activities to groom talents who can support the company's future growth
- 2 Lay the foundation for global HR management
- 3 Build a framework that respects individual differences and allows proper feedback on outcomes and areas for improvement
- 4 Develop HR systems which are flexible in responding to individual needs
- 5 Create a culture where individual strengths are leveraged in management in accordance with SATO's Corporate Values

potential at work. The key to this lies in the individual. One of our management strategies is promoting diversity, by which we seek to go beyond demographic diversity (i.e., gender, nationality, age) to identify and develop the strengths of employees at the individual level. With a diverse workforce, it is important to harness the power of our corporate values to bring our minds together to pursue business growth, which I define as my mission as company CHRO.

To this end, we have formulated our HR Strategy Roadmap, introducing various systems in Japan to address employee requests for workplace transfers, flexible work schedules (to balance child-care commitments) or voluntary retirement to help meet individual needs at different stages of their lives. Our next step is to build stronger ties between HR and the workforce and to customize standard HR management practices to provide training and career opportunities suited for their individual development needs. We will also utilize our *Teiho* reports system<sup>1</sup> to listen to the voices of our frontline employees. Taking care of each and every employee is not easy, but this style of HR management truly reflects our DNA at SATO.

#### ● HR strategies to tap individual strengths, with an eye on global roll-out

Many of these new HR measures are provided only in Japan at the moment. While our business is growing globally, our human resource management is lagging behind. There is an urgent need to move away from traditional Japanese employment practices to establish clearly written, SATO-specific HR rules for standard global use and to develop a structure that allows our HR function and the heads of our overseas companies to work closely together for the deployment of corresponding HR measures. For a start, we have begun making specific action plans and conducting one-on-one meetings with the management of our overseas companies to get to know them individually.

As we make improvements, I keep it firmly in mind that we should never cut corners on communications. We endeavor to engage in continuous dialogue with SATO employees around the world to understand their work situations and offer the necessary support.

1. A daily internal reporting system for employees to submit ideas and suggestions directly to top management. See page 31 for details.  
2. As of March 2016

#### TOPICS 1

#### Launch of full-scale wellness management scheme to improve the health of all employees

Recognizing that our employees are the basis for our success in customer value creation, we are committed to fostering a corporate culture that places employee health as top priority in a positive and work-friendly environment. We have been taking actions to promote employee health and organizational productivity. One example is our appointment of Hiroyuki Konuma to the position of Chief Wellness Officer in July 2015 and the provision of a framework to share health information and promote investment in health.



#### TOPICS 2

#### Making English the official company language by 2020

To ensure that we stay competitive in the global marketplace, we are making efforts to raise the English proficiency level throughout the company by organizing various ability-specific and job-specific English study programs for employees in Japan. By 2020, we aim for employees to conduct internal meetings in English, use English for official documents, and carry out their day-to-day operations and meeting communications in English where necessary.



#### TOPICS 3

#### CEO takes part in national women's empowerment initiative

Our President and CEO Kaz Matsuyama signed a declaration, which is a call to action from Japan's Cabinet Office urging male business leaders to create “A Society in which Women Shine.” SATO will work to further support the active engagement of female employees, with the target of raising the ratio of female managers in Japan to 25% by 2020 (from the current 7.62%).



SATO is a Diversity Management Selection 100 company that METI<sup>3</sup> recognizes as having excellent diversity management practices.

3. The Japan Ministry of Economy, Trade and Industry

#### TOPICS 4

#### Opening regular dialogue between senior management and employees



We proactively create opportunities for employees to speak directly with senior management to encourage two-way communication between the two sides. For example, President and CEO Kaz

Matsuyama regularly visits SATO offices in all parts of Japan as he believes that trust relationships begin with mutual understanding. In addition, he holds open forums once or twice a month for employees to voice concerns and get straight answers on a wide variety of themes including the company's medium-term management plan. Executive officers are also invited to meet-with-employees sessions to share their work philosophies or business strategies.



Corporate environmental management for a sustainable world



Green products and solutions to help reduce environmental impact



Akihiro Kushida  
Chairperson of the Eco-management Committee; Vice President, SATO Holdings Corporation

“Contributing to a sustainable world through Ceaseless Creativity” is the SATO Group’s corporate philosophy that has guided our business activities since our founding. From enabling traceability for food safety to preventing medical malpractice and easing labor shortages, we have developed a broad lineup of products and solutions to address different problems facing modern society. Tackling environmental issues, in particular, is an important part of our agenda. We have included the green business in our medium-term management plan and tasked SATO Green Engineering, a company we

established in 2013, with its promotion. One of our signature green offerings is ECONANO®<sup>1</sup>, a technology which absorbs and reduces CO<sub>2</sub> emitted in incineration and is applied to about half of all labels we produce in Japan. As ECONANO® can contribute to significant CO<sub>2</sub> reductions when used with non-recyclable materials, we hope to apply this technology to purposes other than labels, starting a Materials Revolution that spreads globally via our customers to trigger a virtuous cycle that helps us counter global warming.

In addition to measuring the potential environmental benefits of our products in terms of carbon footprint (CO<sub>2</sub> equivalent) reduction, we are now calculating our water and land footprint<sup>2</sup> as well, setting new 2030 reduction targets for all three. SATO will continue to work with customers to help minimize environmental impact through our products and solutions.

1. Jointly developed by SATO Holdings, Professor Masahiko Abe (Tokyo University of Science), and Acteivi Corporation, the university’s venture company. Currently, ECONANO® products are only available in select markets.
2. Resource indicators that respectively measure the amount of direct/indirect water use and real land use in the lifecycle of a product from raw material extraction to manufacturing, distribution, use and final disposal/recycling.

Our Green Business Products that help reduce environmental impacts of customers’ operations

● NONSEPA® linerless labels

This is a product without release liners to reduce the amount of paper used, leaving behind no liner waste to be disposed of or incinerated. NONSEPA® is the first product in the Japanese label industry to earn Carbon Footprint of Products (CFP) certification,

which displays the amount of CO<sub>2</sub> produced across the product lifecycle to raise environmental awareness.

SATO offers a wide selection of NONSEPA®-compatible printers to meet the operating requirements of different customers.



NONSEPA® labels



NONSEPA® label printers

Long-term plan with goals up to FY 2030 for better environmental management

The SATO Group takes actions to minimize the environmental impact of its business activities — raw material procurement to manufacture own hardware and consumables products, distribution and waste disposal — from the long-term perspective of our environmental policy. For example, we ensure that our products and packaging materials contain no hazardous materials. We also use eco-friendly company cars to reduce CO<sub>2</sub> emissions, and seek to improve efficient usage

of resources by promoting zero emissions at production plants. To strengthen environmental management, we have expanded the span of our environmental plan by 10 years, adding new 2030 targets.

SATO Group companies will work as one to continually deliver green products and services to customers while reducing the environmental impact of our business to build a sustainable world.

Environmental Policy

The SATO Group recognizes that the conservation of the natural environment is critical to creating a sustainable society and an integral part of our ongoing corporate activities. We will not only provide products and services that are eco-friendly but also ensure the entire organization is in harmony with the environment.

Environmental Vision

We aspire to utilize environmental management practices with Ceaseless Creativity to contribute towards a sustainable world.

Progress of Our Medium- to Long-term Environmental Management

Action Items	Target Contributions	Key Indicators		FY 2015 Results	FY 2016 Target	FY 2020 Target	FY 2030 Target
Reduce environmental impact for customers using SATO's ECONANO®, NONSEPA®, and other green products	Reduce CO <sub>2</sub> emissions (carbon footprint)	Japan Overseas	CO <sub>2</sub> reduced (tons), compared to conventional thermal labels	4,040	5,000	20,870	115,400
	Reduce water use (water footprint)	Japan Overseas	Water use reduced (m <sup>3</sup> /m <sup>2</sup> ), compared to conventional thermal labels	159	200	1,233	10,377
	Reduce land use (land footprint)	Japan Overseas	Land use reduced (ha/m <sup>2</sup> ), compared to conventional thermal labels	0.01	0.02	0.08	0.7
Reduce environmental impact of our business activities	Reduce Scope 1 & Scope 2 CO <sub>2</sub> emissions	Japan	CO <sub>2</sub> emitted, compared to FY 2013	Cut by 5.5%	Cut by 6%	Cut by 15%	Cut by 26%
	Reduce Scope 1 & Scope 2 CO <sub>2</sub> emissions	Overseas	CO <sub>2</sub> emitted, compared to FY 2014	Cut by 18.3%	Cut by 4%	Cut by 10%	Cut by 26%
Reuse and recycle resources	Promote zero emissions at production plants	Japan Overseas	Factories that achieved zero emissions	1	3	20	All
Roll out forest ecosystem conservation activities	Reduce CO <sub>2</sub> by participating in tree planting projects to conserve forests and coexist with nature	Japan Overseas	CO <sub>2</sub> absorbed	1,830kg	2,160kg	7,800kg	34,300kg

Our Green Business Products that help reduce environmental impacts of customers’ operations

● ECONANO® , the world’s first CO<sub>2</sub>-reducing labels

ECONANO® uses nanotechnologies to absorb and reduce CO<sub>2</sub> emissions at the point of incineration. Since the release of the pio-

neering labels in 2011, SATO has been actively working to convert other non-recyclable materials into new ECONANO® products.

Our growing lineup of ECONANO® products



ECONANO® labels have been used by 11,000 businesses to date



Municipality-designated trash bags



The ECONANO logo

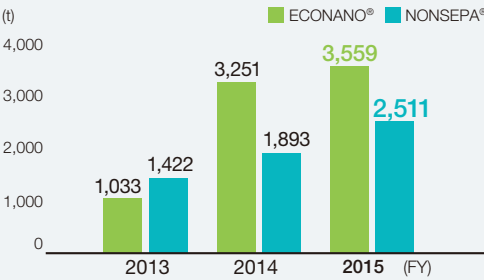


Packaging for innerwear and shirts



Stretch films for wrapping cargo

Amount of CO<sub>2</sub> reduced through the use of ECONANO® and NONSEPA® labels



Notes on calculation  
1) Subjects of calculation: Standard labels and ECONANO® labels (facestock paper & adhesive) designated for disposal. 2) Calculated on the assumption that labels are incinerated when disposed. 3) CO<sub>2</sub> reduction rate of ECONANO® labels at incineration: 20% (TG/DTA analysis results)

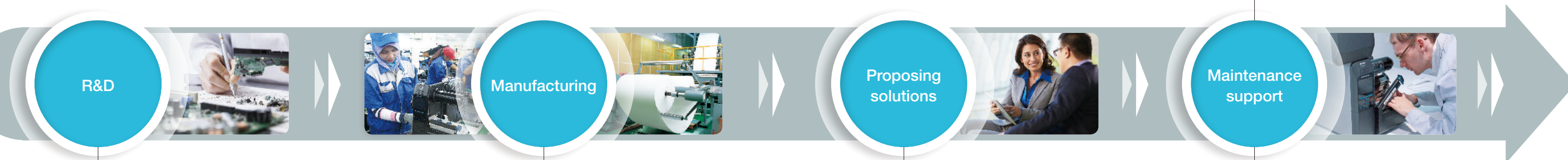
Sources  
1) Waste incineration: Investigative Commission on Methods for Calculating Greenhouse Gas Emissions; Global Warming Control Division, Global Environment Bureau, Japan Ministry of the Environment (August 2002) 2) CO<sub>2</sub> reduction rate: from results of TG/DTA analysis at a CO<sub>2</sub> absorbent materials manufacturer  
\*Reductions for Japan only



## From product development to after-sales support, all our efforts aim to add value

### The SATO value chain

The SATO Group combines its resources around the world to offer the best solutions for each customer, covering all steps of the value chain from developing, manufacturing and proposing solutions to offering maintenance support.

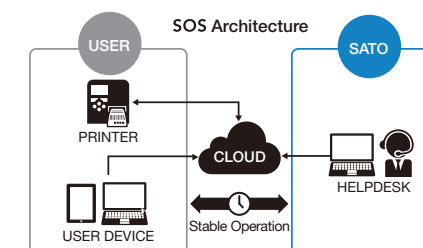


### Expanding the global reach of preventive maintenance — SOS (SATO Online Services)

SOS is the world's first<sup>1</sup> IoT maintenance service that can perform real-time monitoring of printers 24/7. It notifies users when expendable parts need to be replaced, and a specialized operator provides remote recovery support whenever necessary. While minimizing unplanned printer downtime, the service allows customers to have the peace of mind knowing that a virtual customer engineer is always available around the clock.

First launched in Japan in August 2015, SOS is running trial operations in the United States, Europe and Asia, and will be commencing services on a global scale moving forward.

1. For industrial label printers



### Technical support from 40 locations in Japan

The SATO Group has more than 200 customer engineers at 40 support centers<sup>2</sup> across Japan who are ready to go on-site to help customers with technical issues that cannot be resolved via preventive or self-maintenance. They regularly visit the business sites of users on maintenance contracts to service their hardware. Any areas in need of improvement will be shared with our R&D teams to facilitate the development of better products and solutions.

2. As of October 2016

### Optimized tagging solutions for worksites thanks to our expertise with printers and labeling

#### ● Developing products for various environments



Tagging — linking items with data — relies primarily on labels.

The SATO Group specializes in combining a variety of substrates and adhesives to create labels for different purposes, operating conditions, and properties of the items

they are used to tag. For customers operating in harsh environments, we offer labels that have passed temperature, humidity, chemical, abrasion, climate and accelerated life tests.

#### ● Compatibility testing to bring out the best of products

SATO has an R&D center that checks printer-label compatibility, ensuring that both products perform at their best without printing problems. We test carefully and repeatedly to avoid media jam during high-speed print, print misalignment after prolonged use, and other printing defects before releasing our printers and labels to the market.

### Our global network delivers tagging solutions worldwide

#### ● A network that spans the world

SATO's hand labelers and printers are manufactured in five different countries by product category and shipped worldwide. Our label products, on the other hand, are manufactured as close to where they are consumed as possible. We are working in each country to strengthen local production of labels so that we can propose, manufacture and deliver consumables with speed and meet the diverse tagging needs of customers.

#### ● New factories in operation



PT. SATO LABEL INDONESIA

In 2016, we opened new label plants in Indonesia and Poland. Both plants have positive air pressure systems to prevent dust and insects from contaminating the production area. We will continue to enhance our global production infrastructure to produce labels in line with the strictest contamination control requirements of customers in the pharmaceutical, food and beverage, and automotive industries.

### Strengthening solutions capabilities at the individual and organizational level

#### ● Fostering sales teams who exemplify *Genbaryoku*

One of the most important qualities we seek to develop in our sales personnel is *Genbaryoku*, our hands-on approach to problem-solving that relies on fieldwork and not textbook theories. This also constitutes the base of the SATO business, which is dedicated to filling in The Last Inch™, linking data with people and objects. To foster salespeople who can apply *Genbaryoku* to deliver solutions contributing to customer value, we have rolled out new specialized training plans and appraisal systems for our sales teams starting this fiscal year. With multidimensional evaluations and skills mapping, we aim to create transparency in employee performance and accountability, with a focus on fully engaging individual strengths to let our talents shine.

#### ● A knowledge management system to share individual know-how

In order to offer optimized solutions for customers according to their sectors, operating challenges and requirements in the shortest possible time, we are adopting a knowledge management system to collate and share accumulated know-how of individual employees across the group.

To date, we have compiled more than 1,000 resources in the system including videos, and this count continues to grow daily. Sales representatives can learn from this vast body of information and user cases to readily find and present the most suitable solutions to their customers.

### Self-maintenance allows users to have printers working again immediately

Maintenance-free was the concept to designing the CLNX. That's why, together with the built-in SOS<sup>3</sup>, the printer is designed to allow customers perform simple maintenance on their own, like replacing expendable parts without the use of tools. It is also the industry's first<sup>4</sup> printer equipped with a full-color LCD that can play back tutorial videos on the spot.

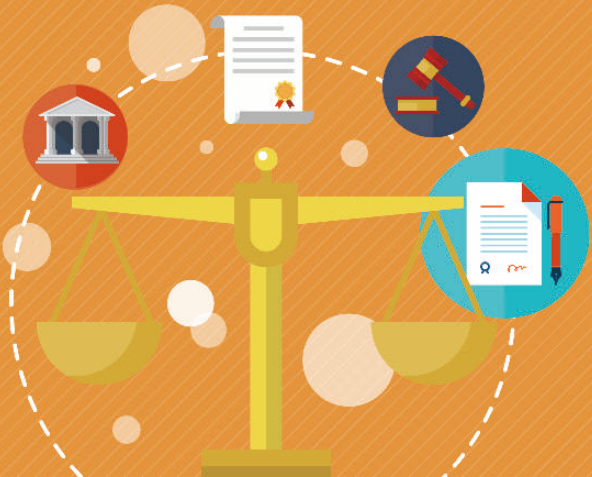


For more complex technical problems, customers can use their smartphones to scan 2D codes shown on the printer display to access troubleshooting information online.

3. To be introduced outside Japan in the future  
4. For mid-range industrial printers



SATO's diverse management team is dedicated to fair and transparent governance.

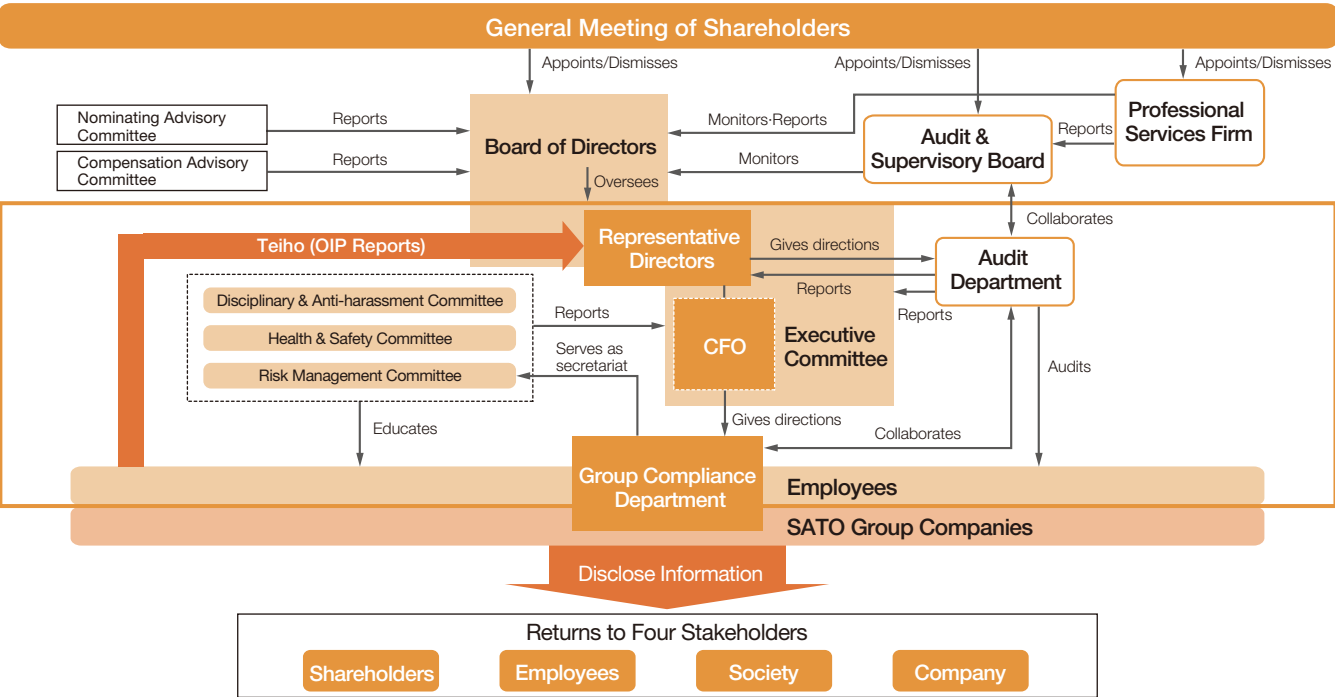


Our corporate governance

The SATO Group lives up to its corporate values and considers transparency the key to increasing business efficiency and maintaining sound management. We aim to achieve an effective corporate governance structure,

working with auditors and a professional services firm to facilitate management oversight and appointing executive officers to expedite/streamline decisions and corporate operations.

SATO's Corporate Governance



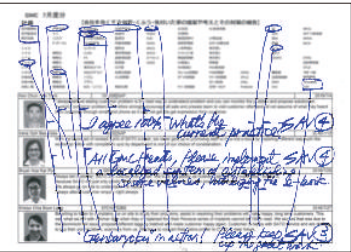
- **More than half of our directors are external**  
Of the 11 directors that comprise the Board, six are external and independent, of which two are women. The four members of the Audit Board (including two external, of which one is a woman) hold meetings regularly to discuss important matters, and they also attend Board of Directors meetings. Our external directors and auditors provide us valuable advice that comes from their professional expertise and wealth of experience.
- **Directors chair the Board in rotation**  
All directors without an executive role chair the Board in a rotating system to maintain transparency in management.
- **Executive directors retire from the role at age sixty**  
To keep the SATO Group forever young, innovative, financially sound and constantly in need from customers worldwide, we set a retirement age for our presidents, vice presidents and executive directors to retire from all executive posts by age sixty and to promote young leaders to these posts.
- **Committees offer advice on nomination and compensation**  
We heighten objectivity and fairness with the Nominating Advisory Committee overseeing management's nomination of directors/executive directors and the Compensation Advisory Committee offering advice on their remuneration.
- **The new Group Compliance Department**  
We set up a Group Compliance Department in July 2016 that reports directly to the CEO. This department works with administrative departments throughout the SATO Group and in the best interest of the entire Group to develop new rules and enforce/improve existing rules on how companies run their operations.

Teiho: SATO's very own "daily reports"

Teiho (OIP Reports)<sup>1</sup> are daily reports that SATO Group employees<sup>2</sup> submit to top management under a limited word count. In effect since 1976, they are "Reports on original ideas, innovations and proposals aimed to make the company better and on how to put them into action" that are inspired from daily work and interactions with customers. This system allows top management to gain immediate insight into internal/external business circumstances and take necessary actions. And as everyone regardless of rank or

years of service participates, it fosters open and active communication within the company.

1. The English name for the system was changed from "OIP Reports" to "Teiho" in July 2016.
2. In Japan and certain overseas Group companies. Other regions exercise a similar system with weekly reports.



The CEO responds to the reports by indicating which departments should take what kinds of action.

Compliance and risk management

Our Risk Management, Disciplinary & Anti-harassment, and Health & Safety Committees hold regular meetings to reinforce awareness on legal compliance and tackle today's diverse

range of risks effectively. Should a risk arise, the Risk Management Committee will serve as the Group's crisis headquarters to decide on and enforce necessary measures.

Messages from external director and auditor

**Sustainably creating true economic and social value**  
**Chieko Matsuda**  
External Director

The SATO Group is unique. It pursues the seemingly mundane yet important business of connecting virtual data to the real world, upholding the spirit of Ceaseless Creativity and committing itself to making this information-rich world function. But this singularity, I believe, is what all stakeholders seek to see in the SATO Group: a company that continues to expand and grow globally and create value of economic and social significance, all the while modeling on its corporate values. Likewise unique is SATO's corporate governance that runs systems not found anywhere else, like *Teiho* or the rotating chairmanship of Board of Directors meetings, which function effectively. Board meetings here are truly active, with members of diverse backgrounds speaking out and providing perspective and added dimension to the discussion. This form of governance is one of SATO's greatest strengths as it advances its business on the global stage, and I hope to offer my contribution to further improve governance here with my experience in the capital market and corporate management.

**Fulfilling the role from the perspective of risk management**  
**Noriko Yao**  
External Audit & Supervisory Board member

For a company to meet expectations of its shareholders and society and continue sustainable and sound growth, it must enhance its voluntary efforts on corporate governance and work to achieve fair and transparent management. The SATO Group is highly conscious about its governance, enthusiastic in appointing external directors and developing systems such as the rotating chairmanship of the Board of Directors and *Teiho* reports. External directors with their diverse expertise provide board meetings with questions and comments from multiple angles to keep governance functioning effectively. SATO's Auto-ID solutions business continues its growth, meeting changes of the times and spreading in application to more industries and geographical locations. The bigger the Group gets, the greater the importance its risk management efforts becomes. I have worked as an attorney for companies in and outside Japan, and I hope to draw on the knowledge and experience to fulfill my role as an external auditor from a risk management perspective.





Directors

- 1

**Kazuo Matsuyama**  
Representative Director,  
President and CEO,  
SATO Holdings Corporation
- 2

**Ryutaro Kotaki**  
Representative Director,  
COO and Executive Vice  
President,  
SATO Holdings Corporation  
President, SATO Corporation
- 3

**Koichi Nishida**
- 4

**Ikuo Dobashi**
- 5

**Tatsuo Narumi**

Directors (External)

- 6

**Ken Suzuki**  
Chairman, Vital KSK Holdings, Inc.  
Chairman, Vital-Net, Inc.
- 7

**Yuko Tanaka**  
President, Hosei University  
Professor, Department of Media and Communication Studies,  
Faculty of Social Sciences, Hosei University  
Professor, Research Center for International Japanese Studies,  
Hosei University
- 8

**Ryoji Itoh**  
Project Professor, the Graduate School of Media and Governance,  
Keio University  
Representative Director, Planet Plan. Co., Ltd.
- 9

**Mitsuaki Shimaguchi**  
Professor Emeritus, Keio University  
Professor, Graduate School of Business Innovation at Kaetsu University  
President, Japan Marketing Association
- 10

**Hideo Yamada**  
President, Partner of Yamada & Ozaki Law Office  
Chairman, Akiko Tachibana Memorial Foundation
- 11

**Chieko Matsuda**  
Professor, Graduate School of Social Sciences,  
Tokyo Metropolitan University  
Professor, Faculty of Urban Liberal Arts,  
Tokyo Metropolitan University  
Principal research committee member,  
Japan Association for Chief Financial Officers

Audit & Supervisory  
Board Members

- 12

**Nobuhiro Yokoi**
- 13

**Junichi Nagakura**

Audit & Supervisory  
Board Members (External)

- 14

**Takao Yamaguchi**  
Certified Public Accountant in Japan,  
Yamaguchi C.P.A. Office
- 15

**Noriko Yao**  
Partner, TMI Associates

Executive Officers

- Keisuke Yamada**  
Vice President,  
Chief Alliance Officer (CAO),  
SATO Holdings Corporation  
Chairman and President, Argox Information Co., Ltd.

**Akihiro Kushida**  
Vice President,  
SATO Holdings Corporation  
President, SATO Printing Co., Ltd.

**Kenji Ushiki**  
Senior Executive Officer,  
SATO Holdings Corporation  
President, SATO Technology Co., Ltd.

**Daphne Tay**  
Senior Executive Officer,  
Chief Communications Officer (CCO),  
SATO Holdings Corporation  
Managing Director, SATO Global Business  
Services Pte Ltd

**Nobuo Watanabe**  
Executive Officer,  
SATO Holdings Corporation  
President, SATO Impress Co., Ltd.

**Chinami Kotaki**  
Executive Officer,  
SATO Holdings Corporation  
Vice President, SATO Printing Co., Ltd.
- Tomoyuki Kumabayashi**  
Executive Officer,  
Head of RFID Business,  
SATO Holdings Corporation

**Yoshinori Sasahara**  
Executive Officer,  
SATO Holdings Corporation  
Vice President, SATO Corporation

**Kozo Senda**  
Executive Officer,  
SATO Holdings Corporation  
President, SATO Primary Label International Co., Ltd.

**Maria Olcese**  
Executive Officer,  
SATO Holdings Corporation  
Head of South America  
General Manager, Achernar S.A.

**Hiroyuki Konuma**  
Executive Officer,  
Chief Wellness Officer (CWO),  
SATO Holdings Corporation  
President, SATO Healthcare Co., Ltd.
- Michael Beedles**  
Executive Officer,  
SATO Holdings Corporation  
President, SATO America, LLC.  
President, SATO Global Solutions, Inc.

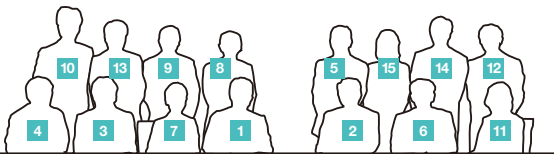
**Yasuhiro Tanabe**  
Executive Officer,  
SATO Holdings Corporation  
President, SATO International Co., Ltd.

**Yoichi Abe**  
Executive Officer,  
Chief Financial Officer (CFO),  
SATO Holdings Corporation

**Hironori Onishi**  
Executive Officer,  
SATO Holdings Corporation  
Director of Tokyo Business, SATO Corporation

**Shigeki Egami**  
Executive Officer,  
Chief Human Resources Officer (CHRO),  
SATO Holdings Corporation

(As of October 1, 2016)



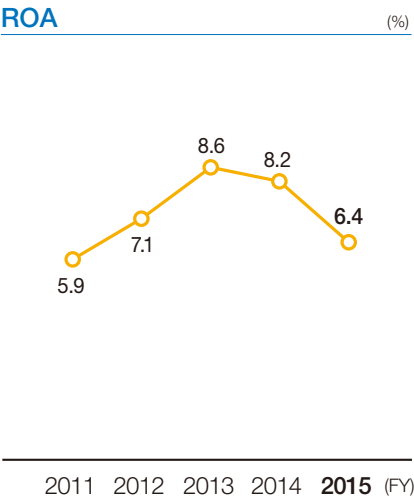
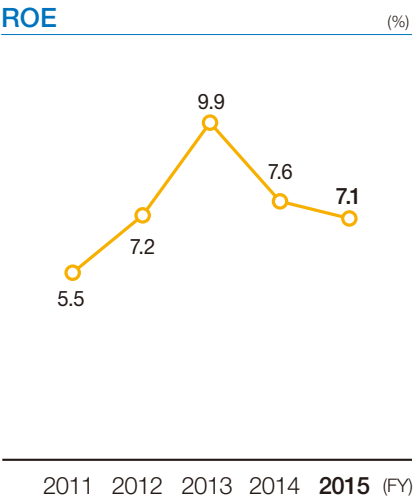
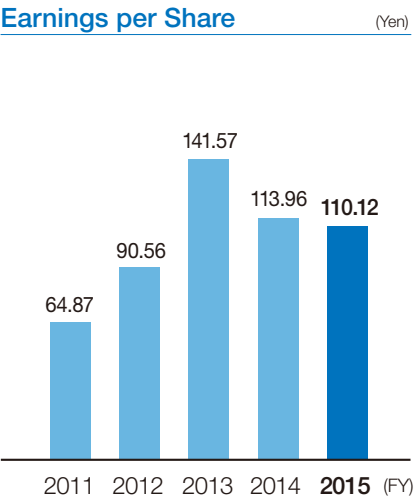
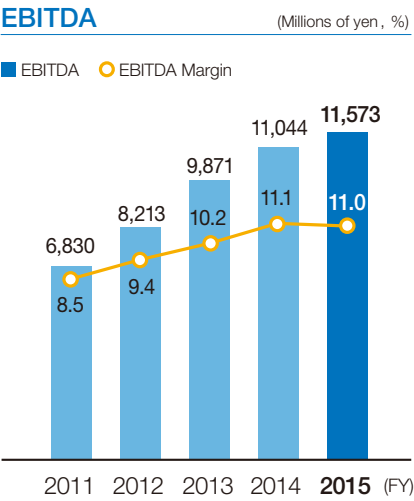
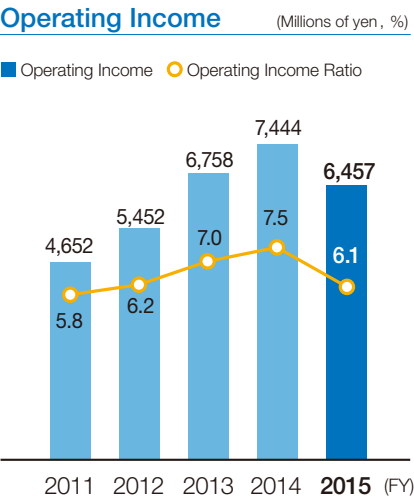
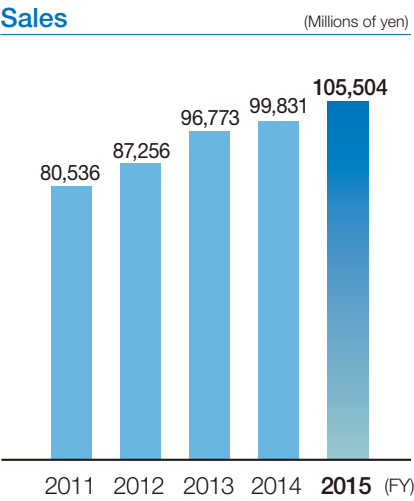


Financial Highlights

Fiscal years ending March 31

(Millions of yen)

	FY 2005	FY 2006	FY 2007	FY 2008		FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Business Performance												
Sales	68,964	82,491	87,790	78,163		74,917	78,368	80,536	87,256	96,773	99,831	105,504
Overseas sales ratio	22.8%	31.5%	31.6%	26.8%		24.2%	23.7%	23.0%	25.6%	29.3%	33.2%	37.3%
Gross profit	30,593	35,890	37,857	32,399		31,279	33,018	34,217	36,410	41,180	42,708	44,942
Selling, general and administrative expenses	25,371	30,195	32,453	31,669		28,705	28,791	29,564	30,958	34,421	35,264	38,485
Operating income	5,222	5,695	5,404	730		2,574	4,226	4,652	5,452	6,758	7,444	6,457
EBITDA (Earnings before interest, tax, depreciation and amortization)	7,252	8,180	8,208	3,565		5,123	6,417	6,830	8,213	9,871	11,044	11,573
Profit attributable to owners of parent	2,646	2,389	2,062	2,050		781	503	1,953	2,726	4,295	3,763	3,689
Financial Position												
Total assets	61,624	66,923	66,103	61,692		64,203	66,134	74,830	77,521	86,737	95,174	96,743
Net assets	36,119	37,508	36,671	35,918		35,985	34,929	36,172	40,205	46,734	53,158	52,157
Research and development	1,280	1,501	1,728	1,922		1,826	1,902	1,859	2,042	2,225	2,292	2,414
Capital expenditures	2,683	4,278	2,424	2,361		2,387	5,084	1,836	3,059	6,106	7,372	6,717
Depreciation and amortization of goodwill	2,029	2,484	2,804	2,835		2,549	2,190	2,177	2,760	3,112	3,599	5,116
Cash Flow												
Cash flow from operating activities	4,801	2,912	4,108	4,994		5,860	1,595	4,434	3,793	10,589	9,205	6,091
Cash flow from investing activities	(6,575)	(4,066)	(2,522)	(2,217)		(2,093)	(4,283)	(7,015)	(984)	(4,776)	(6,221)	(9,596)
Free cash flow (Net cash provided by operating activities and cash used in investing activities)	(1,774)	(1,154)	1,585	2,777		3,766	(2,687)	(2,581)	2,809	5,812	2,983	(3,504)
Cash flow from financing activities	2,069	496	(793)	(2,476)		(826)	(3)	3,273	(2,839)	(1,511)	(3,062)	3,254
Cash and cash equivalents at end of year	10,751	10,344	11,035	10,814		13,774	10,813	11,377	11,992	16,763	17,145	16,212
Per-share Data (Yen)												
Net income (Earnings per share)	84.32	76.30	66.70	67.40		25.95	16.71	64.87	90.56	141.57	113.96	110.12
Book value per share	1,149.80	1,205.33	1,195.69	1,189.50		1,191.84	1,156.88	1,201.02	1,330.77	1,454.90	1,579.15	1,525.14
Dividends per share	31	32	33	33		33	34	35	37	40	45	55
Financial Indicators												
Gross profit margin	44.4%	43.5%	43.1%	41.5%		41.8%	42.1%	42.5%	41.7%	42.6%	42.8%	42.6%
Operating income ratio	7.6%	6.9%	6.2%	0.9%		3.4%	5.4%	5.8%	6.2%	7.0%	7.5%	6.1%
EBITDA margin	10.5%	9.9%	9.4%	4.6%		6.8%	8.2%	8.5%	9.4%	10.2%	11.1%	11.0%
Return on assets (ROA)	9.5%	8.5%	7.1%	0.6%		3.6%	5.7%	5.9%	7.1%	8.6%	8.2%	6.4%
Return on equity (ROE)	7.5%	6.4%	5.6%	5.7%		2.2%	1.4%	5.5%	7.2%	9.9%	7.6%	7.1%
Equity ratio	58.6%	56.0%	55.4%	58.1%		55.9%	52.7%	48.3%	51.7%	53.7%	55.6%	52.8%
Debt-equity ratio (Including lease obligations and zero coupon convertible bonds)	10.2%	15.6%	18.5%	17.1%		19.6%	24.9%	38.2%	31.8%	23.5%	18.7%	31.5%





Financial Statements

Consolidated balance sheets

	FY 2011	FY 2012	FY 2013	FY 2014	(Millions of yen) FY 2015
<b>Total current assets</b>	44,632	46,690	53,647	56,331	54,235
Cash and deposits	12,613	12,577	17,562	18,859	17,856
Notes and accounts receivable - trade	19,611	20,942	22,390	23,132	22,460
Securities	143	93	198	175	187
Merchandise and finished goods	6,262	6,632	6,852	7,781	7,264
Work in process	330	190	226	332	422
Raw materials and supplies	1,695	1,858	2,199	2,846	2,795
Accounts receivable - other	660	884	1,453	1,061	1,563
Income taxes receivable	—	1,035	—	—	—
Deferred tax assets	2,507	1,492	1,625	872	738
Other	893	1,069	1,281	1,419	1,086
Allowance for doubtful accounts	(86)	(86)	(143)	(149)	(139)
<b>Total non-current assets</b>	30,198	30,831	33,089	38,843	42,508
<b>Total property, plant and equipment</b>	17,702	18,694	20,337	21,126	24,853
Buildings and structures, net	5,532	5,414	5,149	4,998	6,420
Machinery, equipment and vehicles, net	3,577	4,330	5,547	7,718	10,146
Tools, furniture and fixtures, net	907	1,006	1,157	1,794	1,511
Land	7,654	7,657	8,017	4,975	5,440
Construction in progress	29	286	465	1,639	1,335
<b>Total intangible assets</b>	6,590	6,600	7,708	12,760	10,784
Goodwill	5,125	4,774	4,058	6,291	4,546
Software	950	954	1,141	993	4,877
Leasehold rights	168	187	190	192	167
Other	345	684	2,318	5,283	1,193
<b>Total investments and other assets</b>	5,905	5,536	5,043	4,956	6,869
Investment securities	245	247	1,308	1,456	3,448
Long-term loans receivable	255	363	113	265	371
Guarantee deposits	659	604	599	650	626
Deferred tax assets	3,479	3,109	1,780	1,251	1,035
Net defined benefit assets	—	—	3	4	2
Other	1,622	1,647	1,674	1,731	1,800
Allowance for doubtful accounts	(356)	(436)	(436)	(403)	(414)
<b>Total assets</b>	74,830	77,521	86,737	95,174	96,743

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
<b>Total current liabilities</b>	33,621	27,405	31,346	33,271	33,750
Notes and accounts payable - trade	4,734	5,180	5,698	7,067	6,475
Short-term loans payable	9,889	3,954	4,137	3,333	7,783
Lease obligations	361	571	524	845	676
Accounts payable - other	12,465	13,372	15,691	14,375	13,054
Income taxes payable	2,167	478	947	1,685	947
Provision for bonuses	165	173	239	285	269
Provision for directors' bonuses	50	19	42	—	—
Provision for product warranties	38	39	41	46	117
Other	3,747	3,615	4,021	5,631	4,425
<b>Total non-current liabilities</b>	5,036	9,911	8,656	8,745	10,836
Bonds with subscription rights to shares	—	5,000	2,215	60	—
Long-term loans payable	1,800	1,041	1,041	2,217	3,935
Lease obligations	1,627	2,042	2,889	3,301	3,573
Provision for retirement benefits	1,268	1,324	—	—	—
Net defined benefit liability	—	—	2,159	2,634	2,212
Other	340	502	351	531	1,116
<b>Total non-current liabilities</b>	38,657	37,316	40,002	42,016	44,586
<b>Total shareholders' equity</b>	37,575	39,247	45,181	49,726	51,470
Capital stock	6,331	6,331	7,361	8,438	8,468
Capital surplus	5,799	5,799	6,819	7,897	7,666
Retained earnings	28,904	30,577	33,557	35,946	37,894
Treasury shares	(3,459)	(3,460)	(2,556)	(2,556)	(2,559)
<b>Total accumulated other comprehensive income</b>	(1,412)	821	1,390	3,148	(342)
Valuation difference on available-for-sale securities	(0)	0	38	2	1
Foreign currency translation adjustment	(1,412)	820	1,902	4,235	310
Remeasurements of defined benefit plans	—	—	(550)	(1,089)	(654)
<b>Subscription rights to shares</b>	—	—	25	62	100
<b>Non-controlling interests</b>	10	136	136	220	928
<b>Total net assets</b>	36,172	40,205	46,734	53,158	52,157
<b>Total liabilities and net assets</b>	74,830	77,521	86,737	95,174	96,743

Consolidated statements of (comprehensive) income

	FY 2011	FY 2012	FY 2013	FY 2014	(Millions of yen) FY 2015
<b>Net sales</b>	80,536	87,256	96,773	99,831	105,504
<b>Cost of sales</b>	46,319	50,845	55,593	57,122	60,562
<b>Gross profit</b>	34,217	36,410	41,180	42,708	44,942
<b>Selling, general and administrative expenses</b>	29,564	30,958	34,421	35,264	38,485
<b>Operating income</b>	4,652	5,452	6,758	7,444	6,457
<b>Total non-operating income</b>	557	311	679	567	488
Interest income	53	53	63	74	118
Dividend income	0	0	7	7	14
Purchase discounts	25	10	20	22	28
Rent income	111	146	158	118	154
Foreign exchange gains	—	—	183	76	—
Insurance income	174	—	—	—	—
Profit on adjustment of extraordinary retirement	81	—	—	—	—
Other	111	100	246	267	170
<b>Total non-operating expenses</b>	1,039	334	353	527	824
Interest expenses	126	112	136	209	201
Sales discounts	30	31	49	70	65
Foreign exchange losses	677	19	—	—	350
Other	204	170	168	247	206
<b>Ordinary income</b>	4,171	5,429	7,084	7,484	6,121
<b>Total extraordinary income</b>	93	6	51	746	21
Gains on sales of non-current assets	6	6	51	730	21
Gains on sales of investment securities	—	0	—	—	—
Gains on reversal of subscription rights to shares	86	—	—	15	—
<b>Total extraordinary losses</b>	149	454	126	459	254
Loss on sales of non-current assets	0	3	29	9	9
Loss on retirement of non-current assets	8	78	68	6	125
Impairment loss	—	—	—	443	—
Restructuring loss	116	233	—	—	106
Loss on step acquisitions	15	—	—	—	—
Loss on disposition of foreign currency translation adjustment	—	138	28	—	—
Loss on prior period adjustment	—	—	—	—	12
Other	8	—	—	—	—
<b>Profit before income taxes</b>	4,115	4,982	7,008	7,770	5,888
Income taxes - current	2,333	884	1,428	2,439	1,701
Income taxes for prior periods	—	—	—	204	—
Income taxes - deferred	(172)	1,364	1,276	1,335	432
<b>Total income taxes</b>	2,160	2,248	2,704	3,980	2,134
<b>Profit</b>	1,954	2,733	4,304	3,790	3,754
<b>Profit attributable to non-controlling interests</b>	1	6	8	27	65
<b>Profit attributable to owners of parent</b>	1,953	2,726	4,295	3,763	3,689

Consolidated statements of cash flows

	FY 2011	FY 2012	FY 2013	FY 2014	(Millions of yen) FY 2015
<b>Net cash provided by (used in) operating activities</b>	4,434	3,793	10,589	9,205	6,091
<b>Net cash provided by (used in) investing activities</b>	(7,015)	(984)	(4,776)	(6,221)	(9,596)
<b>Net cash provided by (used in) financing activities</b>	3,273	(2,839)	(1,511)	(8,062)	3,254
<b>Effect of exchange rate change on cash and cash equivalents</b>	(42)	644	470	459	(682)
<b>Net increase (decrease) in cash and cash equivalents</b>	650	614	4,771	381	(933)
<b>Cash and cash equivalents at beginning of period</b>	10,813	11,377	11,992	16,763	17,145
<b>Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation</b>	(85)	—	—	—	—
<b>Cash and cash equivalents at end of period</b>	11,377	11,992	16,763	17,145	16,212



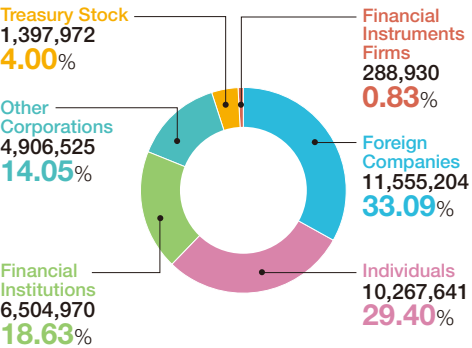
## Stock Information

(As of March 31, 2016)

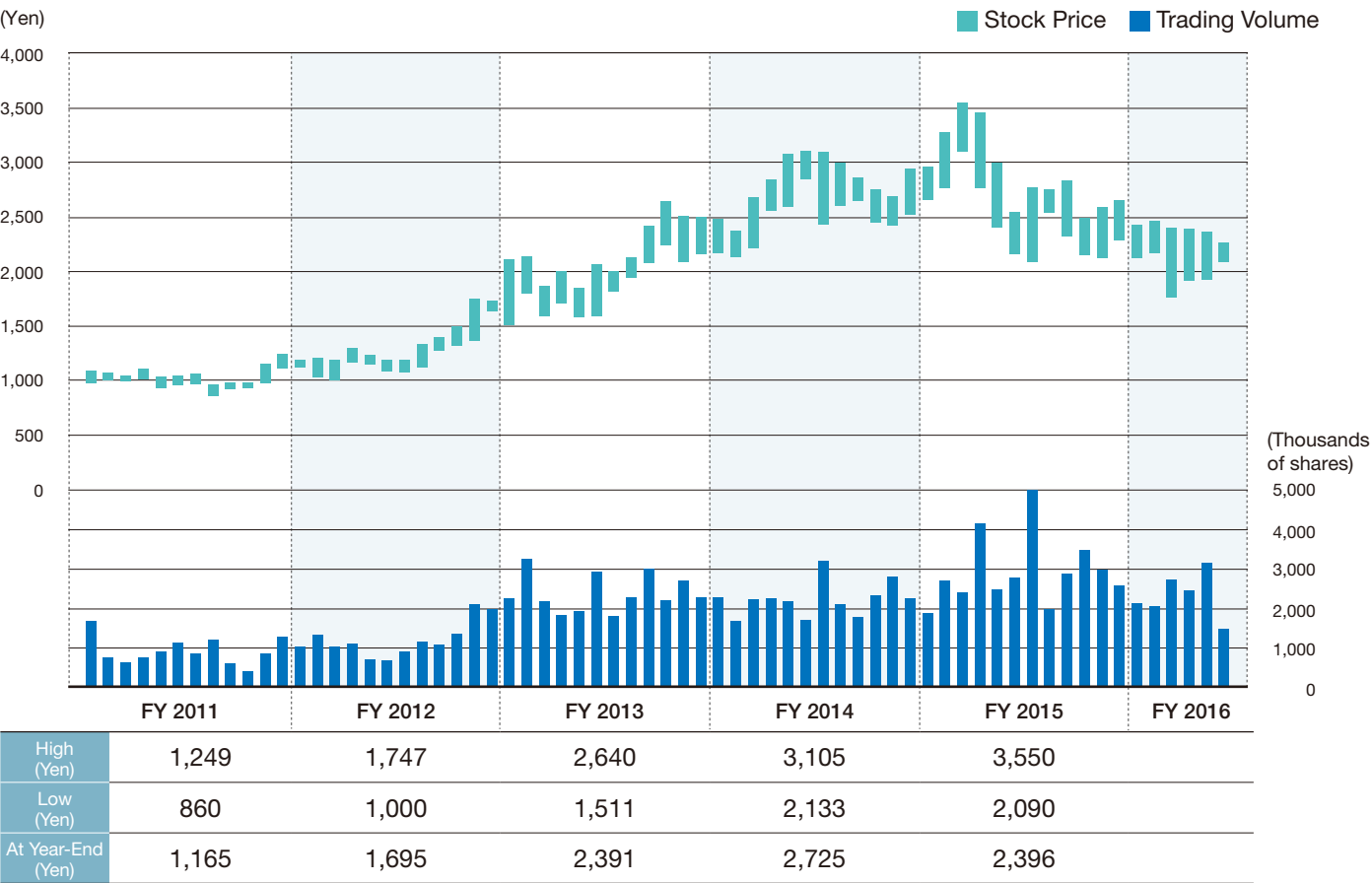
### General Information

Number of Shares Authorized	80,000,000
Number of Shares Issued	34,921,242
Number of Shareholders	7,982
Stock Listing	First Section of the Tokyo Stock Exchange
Securities Code	6287
Fiscal Year	April 1 to March 31
General Meeting of Shareholders	June
Transfer Agent for Shares	Mitsubishi UFJ Trust and Banking Corporation

### Composition of Shareholders



### Stock Price and Trading Volume



### Major Shareholders

Name	Shares Owned	% of Shares Outstanding
Sato Yo International Scholarship Foundation	3,786,200	10.82
Japan Trustee Service Bank, Ltd. (Trust account)	1,535,800	4.39
SATO Holdings Corporation	1,397,972	4.00
SATO Employees' Stockholding	1,226,864	3.51
The Master Trust Bank of Japan, Ltd. (Trust account)	1,092,400	3.12
Goldman, Sachs & Co. Reg	1,060,500	3.03
Mieko Yokoi	905,145	2.59
Shizue Sato	897,470	2.56
Arena Co.	854,460	2.44
Mari Iwabuchi	844,570	2.41

\* Actual amount of treasury stock held by the company: 1,397,962.

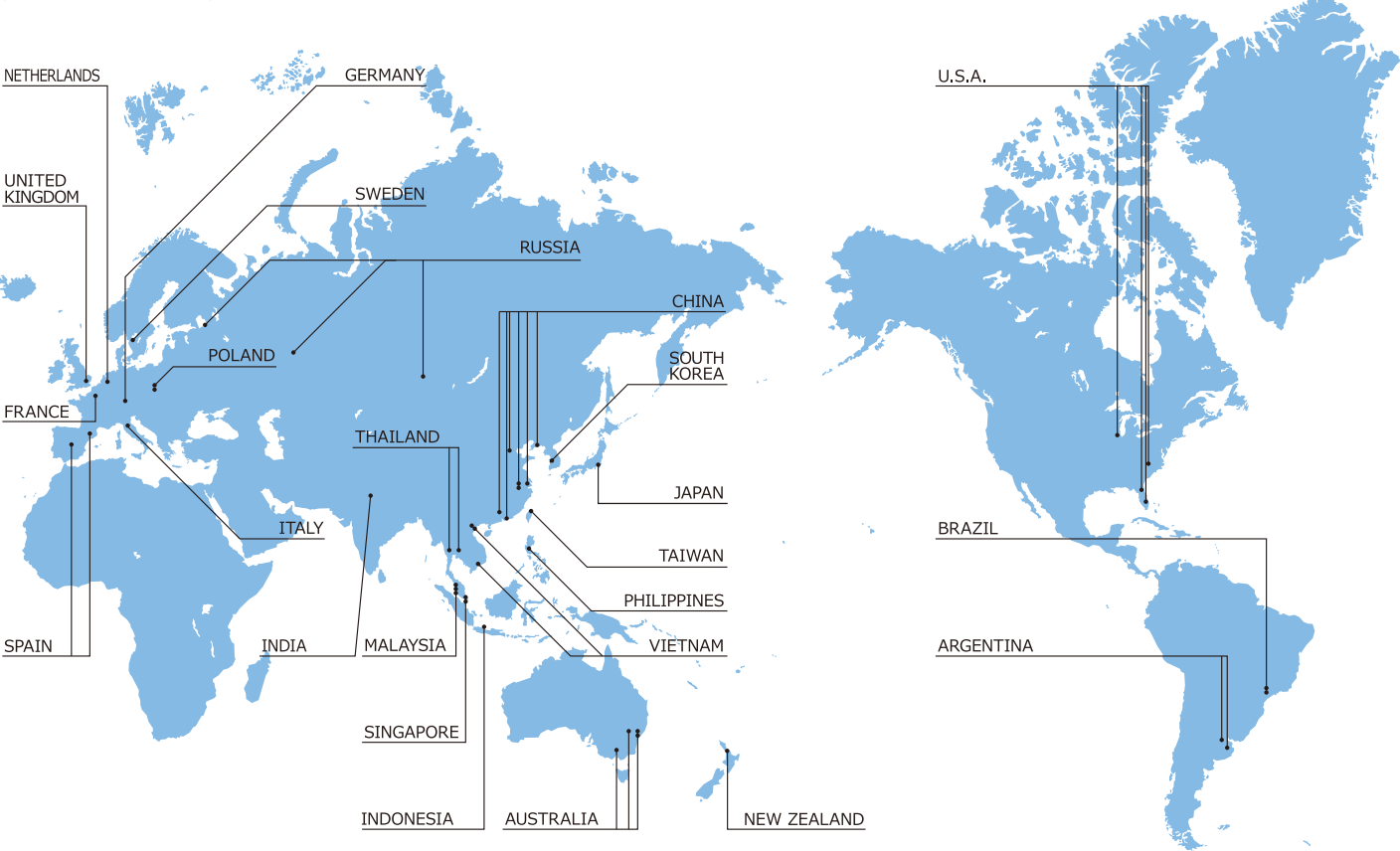
## Corporate Data

(As of March 31, 2016)

Name	SATO HOLDINGS CORPORATION
Location	Knowledge Plaza, 1-7-1 Shimomeguro, Meguro-ku, Tokyo 153-0064, Japan
Established	1940
Incorporated	1951
Representative Directors	Kazuo Matsuyama, President and CEO
Paid-in Capital	¥8,438 million
Employees	4,861 (Consolidated)
Consolidated Sales	¥105,504 million

## Global Network

(As of October 1, 2016)



#### For further information, please contact

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For investors: <http://www.satoworldwide.com/investor-relations.aspx>

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