

INTEGRATED REPORT 2017



The Last Inch™
Unleashing the Power of IoT



あくなき創造

Akunaki sozo - Ceaseless Creativity

SATO Values

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.

Vision

We aim to be the leader and most trusted company in the Auto-ID solutions industry worldwide, exceeding customer expectations in an ever-changing world.

As digital advances and automation affect the world around us, we continually seek new ways to stay ahead of the game. Integrating Auto-ID technology with revolutionary materials, we bridge the last inch of the last mile challenges for our customers with solutions that ensure accuracy and sustainability, save labor and resources, offer reassurance and build emotional connections.

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.

*Photos above: Scenes from SATO Group Summit 2017 held in July that featured work sessions on “Understanding and Exercising SATO Values” and panel discussions. A total of 150 group company presidents, regional heads, strategy owners and SATO Values Leaders from around the world attended the conference.

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Imagine, for a moment, products without identification...

If products had no information tagged to them, would you be able to ship and move them around? Absolutely not. Information is the vehicle that runs our businesses and lives.

We utilize vast amounts of information with our mobile devices and by scanning two-dimensional codes tagged to products. As IoT and Big Data adoption grows, we will see more goods connected to the internet, making our lives far more convenient than ever.

But for such a world to function seamlessly, someone has to do the physical work on that final leg of connection — tagging information to goods and linking it accurately to systems. This is the domain where SATO plays.

Serving the IoT era where connectivity counts, **we bridge this last inch of our customers’ last mile challenges with our problem-solving competence of *genbaryoku*.**



President & CEO,
SATO Holdings Corporation

Kaz Matsuyama

Executive Vice President & COO,
SATO Holdings Corporation

Ryutaro Kotaki

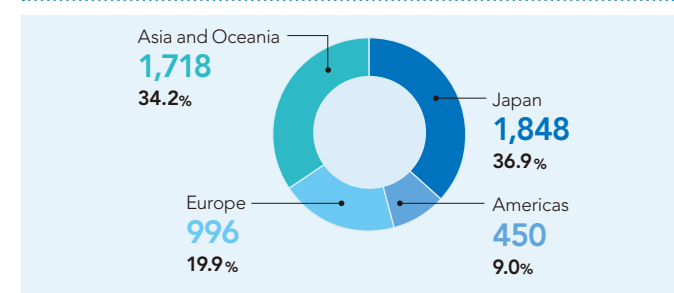
Revolutionizing our Auto-ID solutions business to create new customer value in an age where IoT and digital transformation are transforming our lives

Variable data labels
No.1 worldwide

Barcode label printers
No.2 worldwide

Source: Chunichisha. "Whole Picture of the Printer Market Report 2017."

Group employees **5,012** As of March 31, 2017



Returning to basics and setting new business vision/strategy for speedier growth

Under the business objectives of establishing sustainable growth and profit, SATO Group first developed its three-year medium-term management plan in FY 2012, setting the pursuit for globalization and maximization of customer value its basic strategy. By the end of this three-year period in FY 2014, the Group saw its operating income hit a record high, owing to the strong performance of its overseas business.

Subsequently however, we fell short of profit targets amid sales gains for two consecutive fiscals, as FY 2015 was affected by the increased depreciation expenses of Japan's new core in-house ERP systems, and FY 2016 by declining profitability overseas due to currency fluctuations and sluggish

demand in emerging markets. Although these headwinds are considered to be one-off in nature, we determined it was necessary to end this business standstill and speed up growth by returning to basics and rethinking the drivers of value creation for SATO.

Our answer: the changes that IoT, AI, SNS, automation and other forms of digital transformations bring about to our society intermittently are the big opportunities we must seize by innovating our core business in Auto-ID solutions. With this in mind, we went on to redefine the company's vision and business objectives, domains and strategies to start a new FY 2017–2021 medium-term management plan in April 2017.

A history of capturing growth opportunities at crucial turning points

Changes are not without risks, but SATO Group has, since its founding in 1940, been consistent in creating opportunities to evolve and develop its business even in the face of changing times that threaten continuity of our operations. This keen awareness of the needs of the times had led us to invent the world's first hand labeler for the retail industry that grew rapidly postwar (1962), and the world's first thermal transfer barcode printer in line with the vast proliferation of POS systems (1981) to reap success in the global market. If we had been fixated on our core business back then and had turned our backs on innovation, SATO may have been left behind to disappear.

Thanks to these two world firsts, SATO won recognition as the pioneer of Auto-ID innovations.

In the ensuing 1990s — the 'lost decade' for Japan — the business model of making/selling quality products at low cost generated less value as customer demand shifted quickly toward solutions for addressing and improving issues in field operations. Responding to this change, we created a unique business model called DCS (Data Collection Systems) & Labeling, aimed at offering one-stop solutions that combine systems consisting of printers, readers, software and consumables with post-installation maintenance support to provide the best match for customer needs.

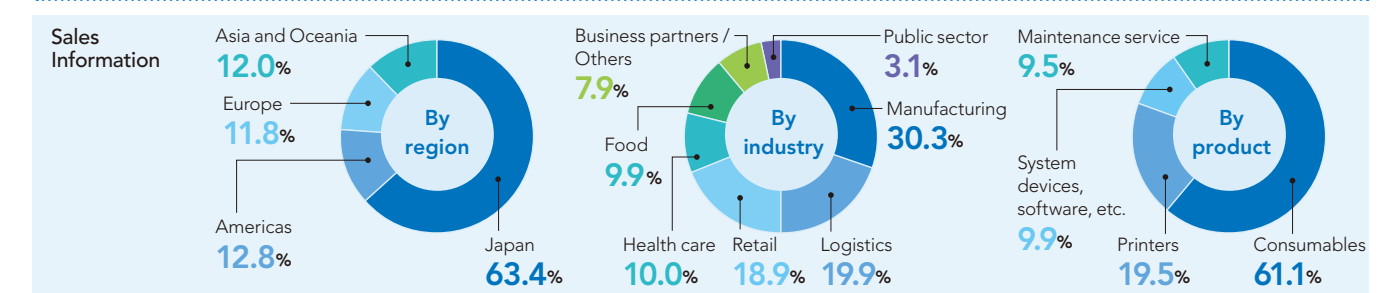
What changing customer needs mean for our Auto-ID solutions

The DCS & Labeling model is the framework on which our current Auto-ID solutions business is built. It accurately captures and collects data on the physical flow of goods and people at customers' business sites, and by linking such data to IT systems with the use of Auto-ID technologies, it delivers customer value in ways that "ensure accuracy," "save labor and resources," and "offer reassurance" (Vision, Page 1). It plays an important role in supporting the infrastructure

underpinning different on-site business applications such as supply chain traceability and asset management.

In recent years, the operational needs of customers are beginning to change dramatically. The most notable example is seen in the increasing use of RFID tags, owing to the trend of booming e-commerce and growing emphasis on productivity and workstyle reforms. Off-the-shelf RFID products are now readily available on the market, yet we are seeing more

FY 2016 consolidated sales **¥106.3 billion**



and more cases where customers who find read rates lower than expected come seek our solutions for fundamental improvements. Introducing standard products and structures alone is not enough to get the latest technologies to work at business sites of vastly different operating environments/conditions, and that speaks to the general constraints and challenges for deploying Auto-ID solutions. We believe the key to resolving these issues is to deliver truly one-stop solutions based on our:

- Ability to understand customers' on-site applications accurately;

Enhancing the value of our Auto-ID solutions toward an IoT world

As IoT and other digital transformations are set to impact our lives, economic activities and business environments significantly, we believe there are two keys to enhancing the value of our Auto-ID solutions for the new era.

• Strengthen one-stop solutions

In the IoT world, anyone can access and use large amounts of real-time data collected from business sites. Captured data must match things in the real world, otherwise everything remains virtual; nothing in the real world would move, and related services will not function. Bridging this last mile of IoT to connect the real and virtual is most challenging, and the last inch of the last mile is where SATO aims to contribute as an Auto-ID solutions company. It requires us to greatly strengthen our competency in implementing one-stop solutions at customer sites.

- Field consulting support for identifying and solving customer issues;
- Capability to optimize any combination of hardware, software and consumables to tag necessary information to things of different shapes and sizes at different business sites in a reliable manner.

These unique strengths we have in identifying/addressing problems and implementing solutions for customers are what we refer to collectively as our *genbaryoku*.

• Shift from B2B to B2B2C

IoT is also revolutionizing marketing. Consumer goods, for example, have always been sold in standardized designs carrying identical promotional messages, with expiry dates and lot numbers printed as variable data. The future, however, will see the value of variable data expand exponentially as we can expect it to include product designs and messages as well, personalized to each individual consumer. Personalization is already the norm in the online world where it has a strong influence on consumer buying preferences and behaviors. While Auto-ID companies have primarily focused on meeting the needs of business customers (B2B), it now becomes increasingly important for us to support consumers, or our customers' customers (B2B2C), in line with the growing shift from mass-marketing to "me" marketing.

Innovations beyond the boundaries of existing Auto-ID solutions

To support customer needs that are becoming more sophisticated and complex, we must venture beyond the boundaries of existing Auto-ID solutions that are typically based on barcodes, 2D codes or RFID tags.

For five years now, we have been working to deliver an additional value-add to customers (DCS & Labeling +One) through commercialization of various products and services such as SATO Online Services (SOS; for enabling preventative maintenance via IoT), iPicking (for order picking via voice and image recognition), and Visual Warehouse (for streamlining warehousing operations via 3D mapping and indoor location technology).

And we will continue to live up to the SATO corporate motto of Ceaseless Creativity and pursue 'open innovation' to actively integrate advanced image/video recognition, AI, robotics, printing technologies and eco-materials from different domains into our Auto-ID solutions to generate new innovations.

Amid this, the most exciting and cutting-edge new business we are currently driving is our Materials Revolution, which targets the component/material level of field-driven Auto-ID solutions with the prospect of boosting customer value. It is an innovation that will bring huge value especially to our customers' customers, and serve to boost our B2B2C capability. It will also serve an important role toward ensuring sustainability and building emotional connections, the two new values we aspire to create as set forth in our new Vision.

Our new materials business is currently focused on two strategic pillars:

- Econano: CO₂-reducing material using nanovesicle capsule technology to cut carbon emissions at the point of incineration;
- Inline Digital Printing (IDP): Unique color-change pigment for inline printing with lasers.

Since launching Econano in FY 2011, we have been applying it to our label products that we supply to many businesses. We are extending its application to sustainable packaging as well. The Econano stand-up pouches we delivered for Ajinomoto's Nabe Cube (stock cubes for hot pot) product lineup in 2016 were recognized as eco-friendly packaging and awarded the 41st Kinoshita Prize for Research and Development by Japan Packaging Institute. We will continue to convert a variety of non-recyclable materials into Econano to enable CO₂ reductions and contribute to the development of a sustainable world through our core business.

As for IDP, we now enjoy a close working relationship with the R&D department of DataLase, inventor and patent owner of the technology, after acquiring 100% share of the UK-based company in January 2017. We are starting to look

into new joint development projects for the medium to long term.

IDP has its key feature in being inkless at the point of printing, and allowing printing of variable information at late stages of production and packaging. It enables not just substantial reduction of running costs, stock keeping units (SKUs) for product packaging, and maintenance worker-hours, but also the personalization of product designs and messages for the individual consumer. We expect IDP to trigger revolutionary changes for the marketing scene, and are planning to release the technology in multi-color in FY 2020.

Although our new materials business is currently making losses due to upfront investments for R&D/business development and amortization of goodwill, we target to bring it to operating profitability in FY 2019.

Devising a new medium-term management plan for FY 2017–21

To reflect the growing depth of our business domain and how SATO will change in response to external changes, we have devised a new medium-term management plan for FY 2017–21. This new plan spells out our new vision to create a business model of a new dimension by integrating Auto-ID technology with revolutionary materials, and provides new definitions for "Our business domain," "What we essentially do," "Our positioning," "Our information domain," "Our core competence," "Our commitment (customer value first)"

and "Our key driver" as our long-term basic strategy. The plan has also consolidated its seven previous strategies into five,* for us to center on our solutions business and end user-centric business as we seek to return to basics and focus on these strengths with the aims of speeding up growth and strengthening the global business, which has remained sluggish since FY 2015.

*See Pages 13-14 for details of the respective strategies.

Building People, Building Business: People are key to executing strategy

The true value of the SATO business lies in our one-stop solutions, which we believe would not be possible without the *genbaryoku* of each and every employee. *Genbaryoku* is more than just going on-site; it is about being able to fully understand issues at customer sites, come up with real solutions and implement them without fail. Fostering talents capable of applying *genbaryoku* is therefore the key to executing our business strategy, and it is for this same reason that we consider 'Building People, Building Business' the shared mission of all of us at SATO. This belief that our business and people are inseparable is also what binds our efforts

in promoting SATO Values, supporting workplace diversity and involving employees in company decisions and business management.

Our Teiho system, in particular, is iconic of how we constantly involve all employees in the running of our business, and it continues to churn out numerous innovations today like it always has over the past 40 years since its inception in 1976. We are now working to spread Teiho to our group companies outside Japan as well, while exploring possibilities of introducing AI algorithms to the system to create new value.

Being a trusted partner that customers can count on for answers

SATO Group's vision is "to be the leader and most trusted company in the Auto-ID solutions industry worldwide, exceeding customer expectations in an ever-changing world." From the customer's perspective, this means a company they can trust their field operations with, rely on in times of troubles, and look to for answers for their current and

future needs — the ultimate goal we envision and strive to achieve. On behalf of our employees and the management, I ask for your continued support in our businesses.



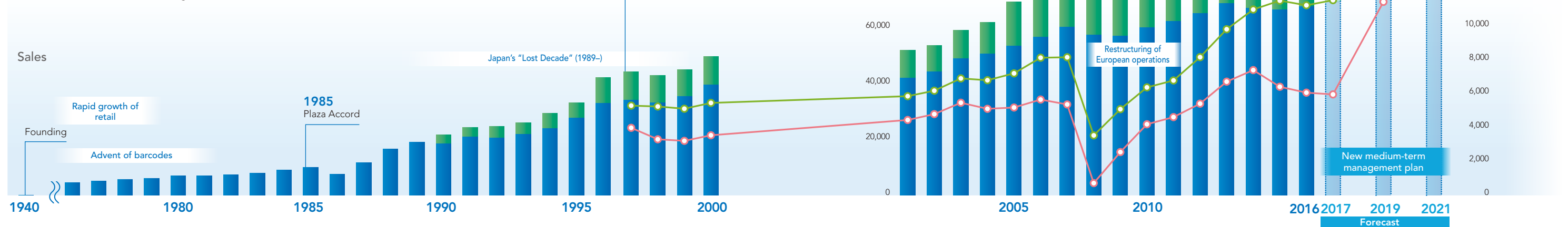
Kaz Matsuyama
President & CEO,
SATO Holdings Corporation

The history of the SATO Group

From manufacturer to solutions provider

Ever since its founding in 1940, SATO has constantly shifted its core business, responding to the changes of the times in the spirit of Ceaseless Creativity. It built its foundation as a manufacturer in its growth phase, introducing pioneering products. The development phase was about establishing its very own business model called DCS (Data Collection Systems) & Labeling, engaging in solutions and creating value by tagging information to objects using Auto-ID technology. And today, SATO is in a transition phase, trying to transform into a provider of comprehensive Auto-ID solutions.

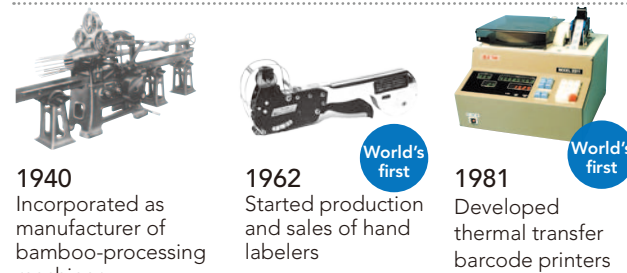
To be a company that customers continue to choose and rely on, SATO will ceaselessly make efforts and take on new challenges.



Product-based business

1940- (Founding)

Revolutionary products addressing the needs of the era



1940
Incorporated as manufacturer of bamboo-processing machinery

1962
Started production and sales of hand labelers

1981
Developed thermal transfer barcode printers

1958
Started production and sales of automatic binding machines

1964
Started production of labels

Plants outside Japan

1986
Established hardware plant in Malaysia

Teiho: Reports to top management; the source of small, continuous changes



Introduced in 1976, Teiho is SATO's very own reporting system that lets all employees be involved in running the company. The daily report, written within a set word count, can be about information employees come across on site, or new ideas that better the company. Teiho helps top management stay at the forefront of situations inside and outside the company to facilitate quick decision-makings and actions, while allowing employees to see from the business owner's perspective and to participate in management.

Auto-ID solutions

1990s- 2000s-

The DCS & Labeling model
— Solutions for on-site purposes

SATO started the DCS & Labeling business model of combining printers, readers, software and consumables together with maintenance support into a system package that meets on-site needs of customers.



Globalization

- 2001** Established overseas headquarters in Singapore
- 2004** Began construction on hardware plant in Vietnam
- 2006** Acquired barcode businesses of Checkpoint Systems, Inc.; established five new companies
- 2007** Established regional headquarters in the US, Singapore and Belgium

Provider of comprehensive Auto-ID solutions

2010s-

Strengthening Auto-ID solutions (core business)

RFID tags

2013
Acquired proprietary RFID business from Magellan Technology to establish SATO Vicinity Pty Ltd in Australia

2013
Acquired minority (14%) stake in Nexgen Packaging LLC, US-based global provider of apparel brand identification and packaging products

2017
Established an RFID tags/labels production plant at Kitakami Operations, Iwate Prefecture, Japan

Entry into emerging markets

2012
Acquired Argox Information Co., Ltd., Taiwanese manufacturer of entry-level printers

2012
Established sales subsidiaries in India, Indonesia and Vietnam

2017
Established sales subsidiaries in the Philippines and Taiwan

Software

2014
Established Auto-ID systems integrator SATO Global Solutions, Inc. in the US to strengthen software development capabilities

Changing the game

2014
Released the CLNX series, the world's first IoT-enabled label printers

2015
Launched SOS (SATO Online Services), a next-generation maintenance service platform

Strengthening Auto-ID solutions (primary labels)

2012
Acquired Acharnar S.A., Argentine manufacturer of primary labels

2014
Acquired Okil-Holding, JSC, Russian manufacturer of primary labels (75% share)

2015
Acquired Prakolar Rótulos Autoadesivos S.A., Brazilian manufacturer of primary labels

New materials

2011
Released Econano, labels that reduce CO₂ emissions at the point of incineration

2017
Acquired DataLase Ltd., UK leader in Inline Digital Printing (IDP)

Our value creation cycle

A look at SATO's value creation story from the standpoint of inimitability

What value do standard Auto-ID solutions create?

They tag information to objects to deliver basic values — ensure accuracy, save labor and resources, offer reassurance.

- Auto-ID solutions are social infrastructure comprised of Auto-ID technologies (barcodes and RFID tags) that attach information to objects/people and keep it synchronized as they move to support on-site business applications, including those for traceability, supply chain and asset management.
- The role of Auto-ID solutions is expected to expand significantly in the IoT era where the amount of data collected and used on-site will exponentially increase.

What are their challenges and limitations, seen from the customer's perspective?

On-site issues cannot be resolved by a single vendor.

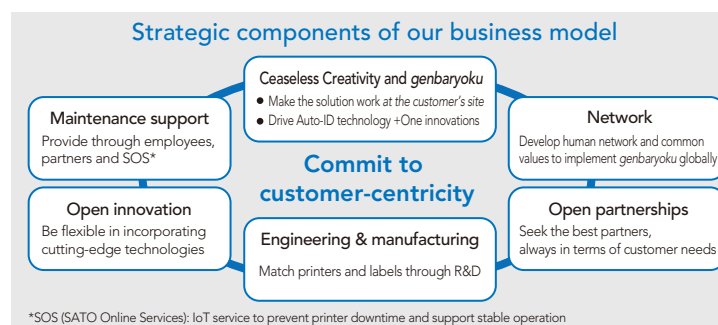
- The fact that many companies are involved in the process of evaluating, implementing and introducing a solution obscures where the ultimate accountability lies.
- Problems tend to arise in RFID tags that are largely dependent on the environment they operate in and how they are implemented.
- It is hard to find a partner that can offer long, continuous, post-installation support.
- Many providers specialize in specific technology areas, hindering open, multidisciplinary innovations.
- Solutions are predominantly designed for businesses and do not meet consumer needs.

Social trends of labor shortage and digital transformation are expected to aggravate these problems.

What makes SATO's Auto-ID solutions different from the others?

One-stop solutions, focused on eliminating downtime and making continuous improvements on-site.

Knowing that customers find opportunity loss to be costliest and downtime the worst enemy, SATO sees its mission in providing truly one-stop and seamless solutions. A sale of a printer isn't the end of a transaction; rather, it's where we start offering our full printing solution. Our business model is all about helping customers solve managerial and operational challenges of today and improve operations for tomorrow.



What do we ultimately aim for?

To become a company that customers count on for answers.

This is our Vision ("To be the leader and most trusted company in the Auto-ID solutions industry worldwide, exceeding customer expectations in an ever-changing world") rephrased from the customer's perspective.

Why don't other companies employ this business model?

Not only does it conflict with that of most others, but it also demands enormous amount of time, money and labor to implement.

The SATO revenue model

We pursue deep and long-lasting relationships with customers for sustainable, repeat business.

Reasons for making repeat business our revenue base

The SATO revenue model is based on what we call economies of "depth" and "length" rather than scale and scope. "Depth" represents our understanding and coverage of customer needs, and "length" refers to the duration for which business relationships last. Business models that are focused solely on selling products cannot provide the long-term commitment to eliminate downtime and make continuous improvements on-site.

It's a model that allows us to steadily grow profits by earning long and continuing trust from customers, and the idea is that [total lifetime value for our customers] = [our revenue base]. In fact, our consumables business that primarily consists of repeat orders accounted for 61 percent of our total sales in FY 2016.

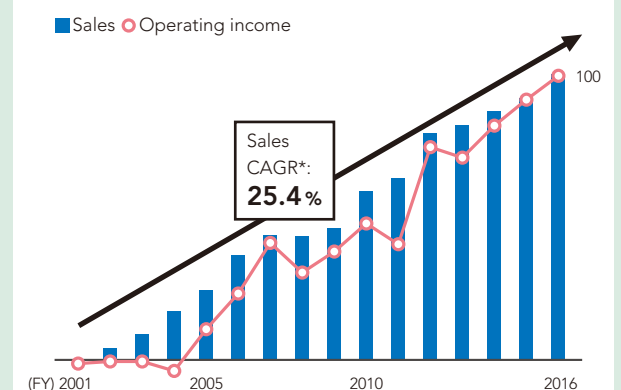
The key to succeeding in repeat business is to satisfy customers continuously, and we do so with reliable products, maintenance support and *genbaryoku*.

Best practice overseas

Our internal best practice in terms of revenue model is found at SATO Auto-ID (Thailand) Company (STC). STC was wholly established by the SATO Group in 2001 without merger or acquisition. The company logged negative profits in the first four years as it explored and developed markets and sales channels from scratch, but then turned itself around after it started manufacturing and selling consumables, which boosted its profitability. Its repeat business has grown since, founding a solid revenue base that has proved stable even in times of political and economic instability. It serves as a good model case for our regional businesses worldwide.

The company has evolved into an organization largely run by local employees who understand SATO Values and our business model.

SATO Auto-ID (Thailand): Sales and operating income



How will SATO enhance its earning power?

At the core of our growth strategy are our global businesses where the potential is 10 times larger than that of Japan's. While some of our group companies including STC have been successful in deploying our business and revenue models, the move is yet to spread on a global scale.

Effecting changes to this area is our topmost priority. In Japan where population is aging and birthrates are falling, our focus is on strengthening solutions that create new customer value, as in saving labor.

FY 2017–21 medium-term management plan

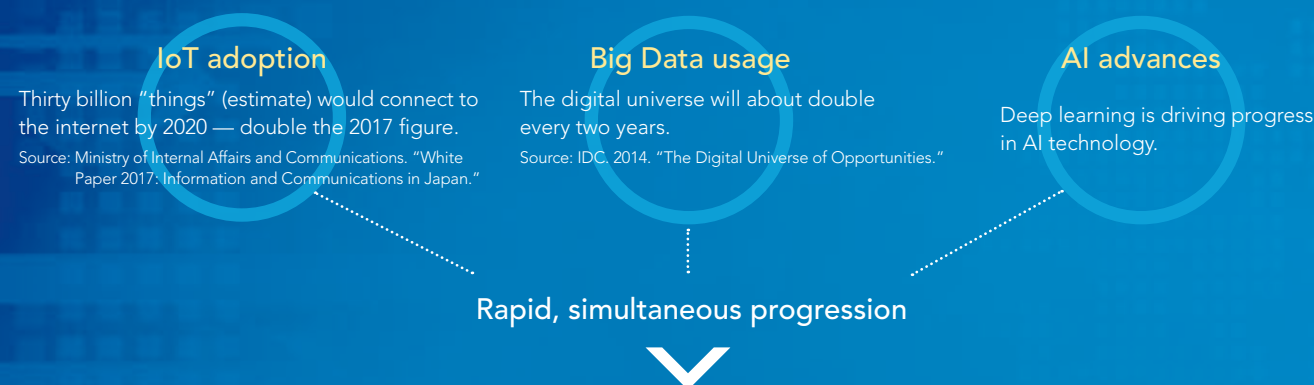
Changes taking place around us

Digital transformation — the change information and digitization bring about to better people's lives — is storming the world owing to advancements in IoT and AI. Businesses today see digitization as an immediate and urgent challenge to face up to.

Some of the many challenges include collecting and making use of the growing amount of data, answering to the vast range of consumer demands that smartphones and social media helped diversify, and seeking partnerships beyond industry frameworks to put these tasks into action. Workplaces are trying to stay on top of these changes by improving productivity with automation and other technological innovations.

Let us look at the changes that are taking place.

At customer's sites

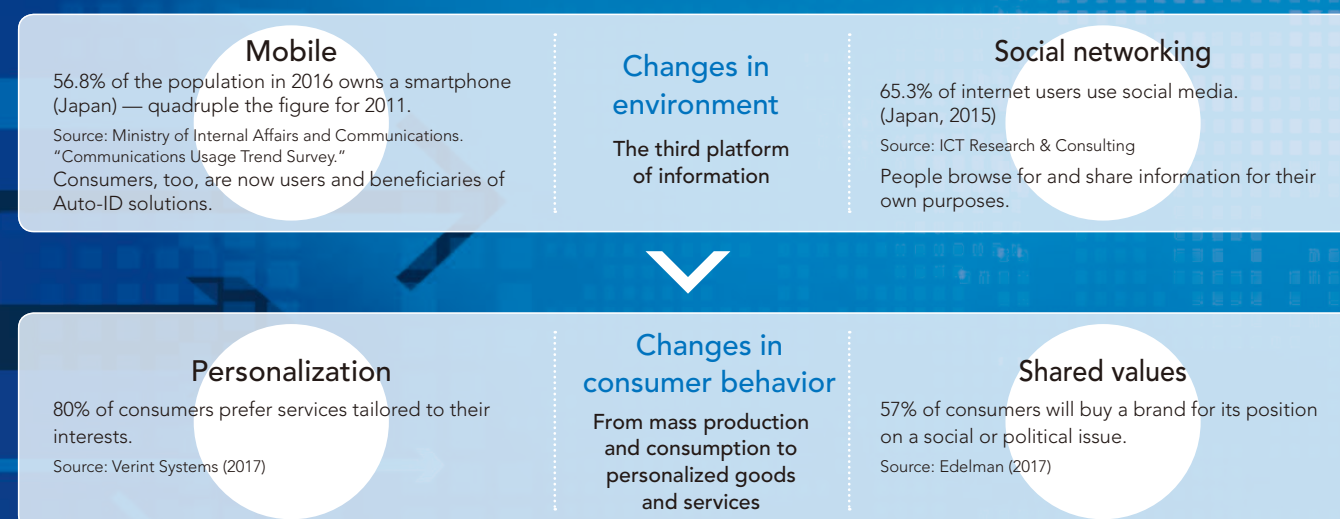


Customers need automation and innovations to stay ahead

Reference: Excerpt from Ministry of Economy, Trade and Industry's report on "Future Industry Structure in Industry 4.0 (Draft)"

- Data use has enabled organizations and industries to overcome informational and physical restrictions, consequently lowering barriers among each function. It has further accelerated change, and this trend has become global.
 - The importance of data as a source of value-add has heightened amid the Industry 4.0 changes, of which virtual data*1 and real data*2 are increasingly expected of their potential usability.
 - Whoever could strategically manage real data in line with their strengths and create innovative services and products that fulfill the latent needs of customers would gain competitive advantage.
- *1: Virtual data: Data arising from web searches, social media and other online activities.
*2: Real data: Data obtained in real-life activities of individuals and businesses via sensors; e.g., health data, mileage, operation status of a product.

Consumers



How SATO is changing

Bridging the last inch of the last mile on-site

SATO bridges the last inch of our customers' last mile challenges by identifying information about people and objects at the front lines of their business operations. The information that we handle ranges from product information to shipping data and more, and is transmitted through barcode labels and other media for use throughout the supply chain.

With the world constantly changing, customers expect more. The tagging element of Auto-ID solutions is evolving, and we must now provide value for the consumer and offer a dramatic increase in productivity. In order to bridge the last inch in this new era, we proactively adapt by embracing open partnerships and open innovation.

Change 1: B2B2C

In order to truly meet the needs of customers and create new customer value, we set our sights on the needs of their customers — the consumer — to transform our business model from B2B to B2B2C.

Increasing value by tagging

We will enable rapid personalization of consumer goods with product designs and brand stories to drive emotional engagement with brands. With personalized content right on a product or its packaging, we will help our customers differentiate their brands.

New technology for new possibilities — staging a Materials Revolution

SATO acquired UK-based DataLase and its groundbreaking Inline Digital Printing (IDP) technology in January 2017. This laser-reactive color-change pigment technology enables high-speed, high volume printing of variable data to deliver truly individualized product packaging to consumers.

Change 2: Open partnerships, open innovation

Our DNA of diving deep into operational issues on our customers' front lines drives us to seek out partnerships to solve technical challenges and enable one-stop solutions. From audio and voice recognition to positioning technology and more, we seek out anything that adds value to traditional tagging operations to boost productivity for our customer.

Existing Auto-ID technologies
×
+One solutions, customer-centric innovation

Change 3: Innovation

We pursue innovation to synergize our core Auto-ID solutions business and our new materials business to provide a drastic productivity boost for customers.

A Materials Revolution for enhanced data tagging

IDP offers speed and cost improvements over traditional printing methods and dramatic productivity increases. The solution enhances data tagging with its ability to print variable information for high-volume, fast-moving industries on-demand. It enables late-stage product customization with no consumables and requires less maintenance and servicing.



The SATO last inch pyramid

Design, brand story

Information
(text, audio, visual, sensory)

Data
(variable, static, analog, digital)

SATO Group's FY 2017–21 medium-term management plan

In today's global economic environment, we are seeing the digital transformation accelerate, the need for better productivity grow at production sites, and consumer awareness and buying behaviors change and diversify.

In order for us to respond proactively to customer needs in this changing business landscape, we have revised part of the five-year plan devised in FY 2016 to launch a new medium-term management plan spanning FY 2017–21.

Management objectives

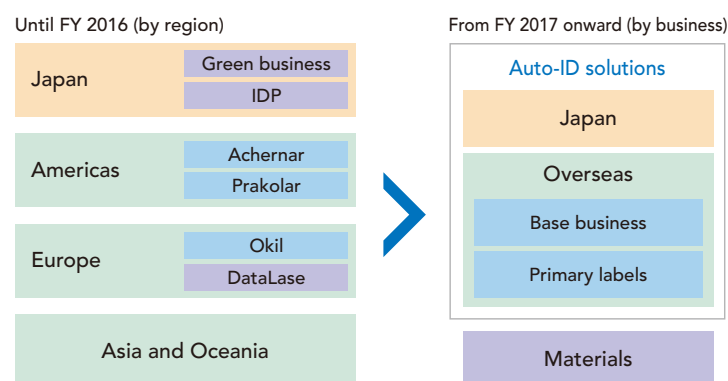
Management objectives for FY 2017–21

Increase earning power in Auto-ID solutions and achieve operating profitability (FY 2019) in the new materials business, to establish sustainable growth and profit at the group level.

The objectives of the new medium-term management plan are to establish sustainable growth and profit as per the old plan, but have been tailored to reflect changes in the external environment and the scope of our business domains following our 100-percent acquisition of DataLase and its Inline Digital Printing (IDP) technology.

Accordingly, our reporting segments have also changed from the former four geographical segments to two business-specific segments: Auto-ID solutions and Materials.

Changes in operating segment classification



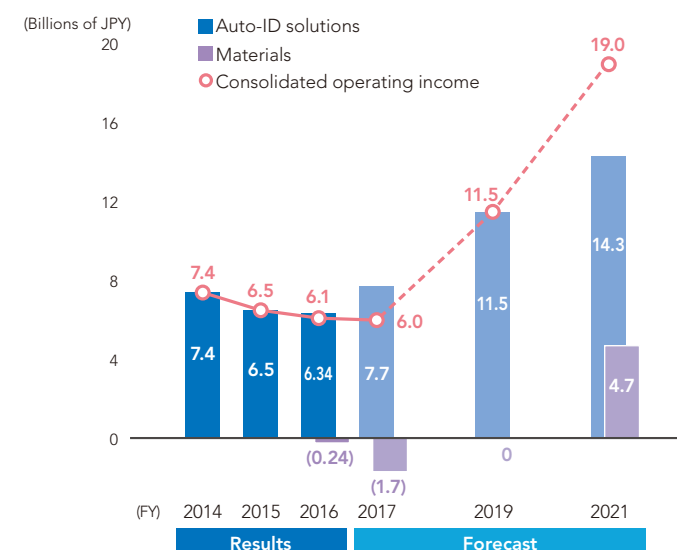
Management objectives

	FY 2017	FY 2021
Sales	¥113.5 billion	¥160 billion
Operating income ratio	5.3%	12%
EBITDA margin	10.2%	15%
Overseas sales ratio	39%	50%
ROE*	6.7%	16%

*Return on equity

As we expect multi-color IDP (due for launch in FY 2020) to start contributing to profitability from FY 2021, we have set the new medium-term plan to end in the same year.

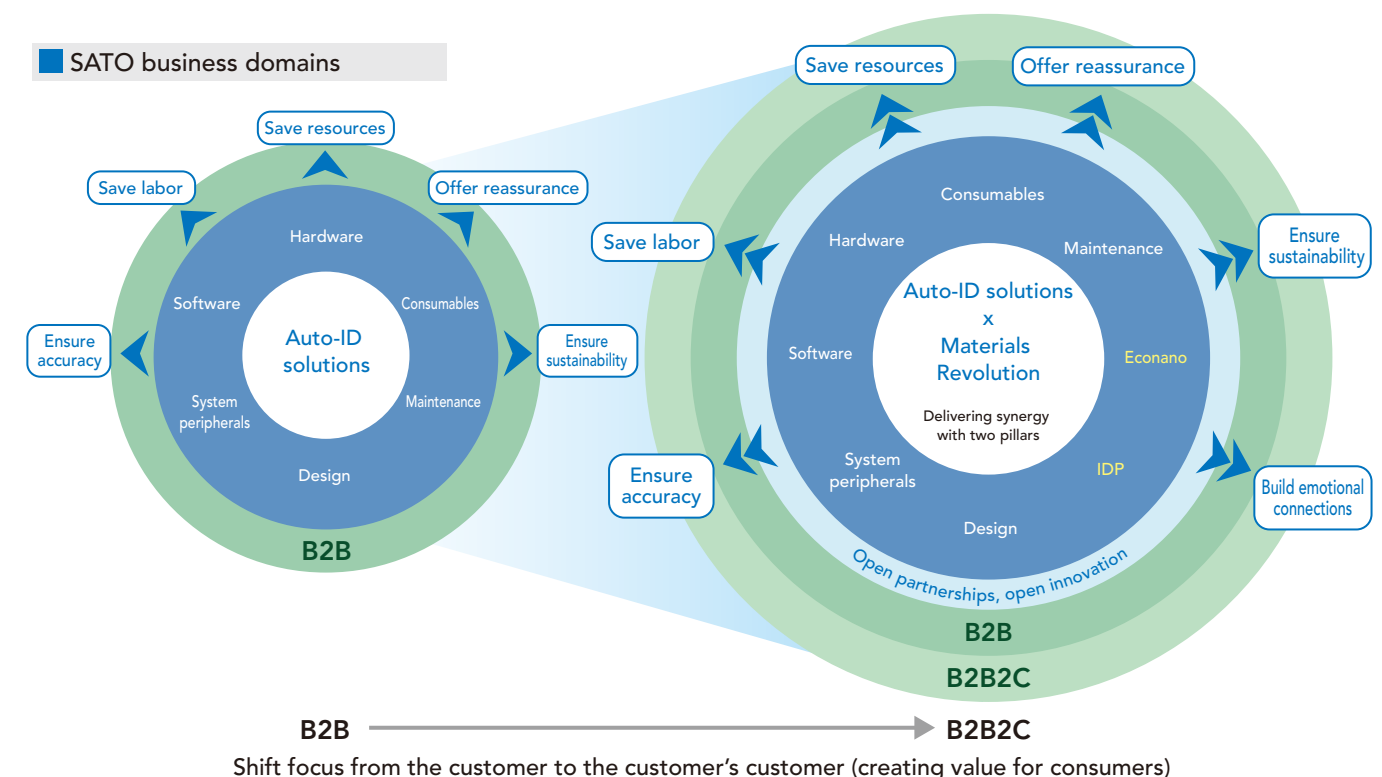
FY 2017–21 medium-term management plan (operating income)



Auto-ID solutions x Materials Revolution as our business domains

Another change in the new medium-term plan is the expansion of our business domain from "Auto-ID solutions" to "Auto-ID solutions x Materials Revolution." Materials Revolution refers to our new materials business that we aim to

drive via our IDP and Econano technologies, leveraging their respective technical strengths while pursuing synergy with our core business of Auto-ID solutions at the same time.



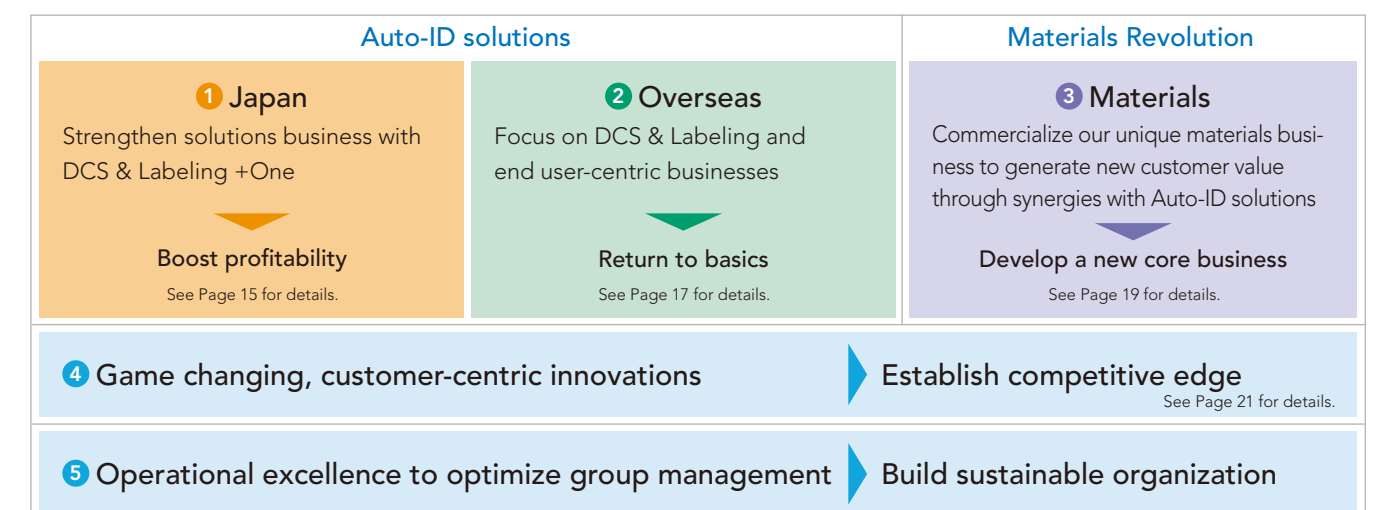
Two business pillars and five strategies

In creating the new plan, we set our two business pillars to Auto-ID solutions and Materials Revolution, and scrutinized the meaning of our long-term basic strategy while adding clearer definitions to each of the strategies.

What used to be seven have now been consolidated into five strategies around the common theme of creating new

customer value through pursuing customer-centric innovations and strengthening one-stop solutions.

Assigned to each strategy are strategy owners and their immediate action leaders from across the organization to ensure stronger execution to realize our operating targets.





Enhancing our strengths in solutions with the DCS & Labeling +One model

Executive Vice President & COO,
SATO Holdings Corporation

Ryutaro Kotaki

Three measures to heightening profitability

About 60 percent of SATO Group's sales come from the Japan business. When I took the helm of this business last year, it had posted its second consecutive year of negative year-on-year earnings, and my utmost mission was to boost earning power. In the matured Japan market, we cannot break out of price competition simply by lining up optimal products. That's why I set out last year for us to go back to the basics of "customer-centricity based on seeing the site," and commit to three actions.

The first is to enhance our strength in solutions. If we want to raise earning power, we have to move away from simply

lining up good products to offering solutions that focus on customer value.

The second is to strengthen marketing. We have an enormous amount of information and a wealth of knowledge that have been accumulated through our points of contact with customers but not made sufficient use of. We will change so that each company and department can mutually benefit from such knowledge.

And the third is to build people who will be the drivers to enhance earning power. I believe this is our critical action now as well as for the future.

Enhancing our strength in solutions

This past year, I have frequently reiterated our basic sales stance of focusing thoroughly on customer value, and endorsed people to change their mindset to selling solutions. I feel that we have basically gained alignment. The DCS & Labeling +One concept that adds to our core business model new technologies and strategic alliances to produce innovation has started to gain ground. Quality and quantity of our services have improved, notably in our enhanced Design Promotion business that helps customers raise sales of their products with our packaging design solutions based on marketing information from consumer perspectives. These factors have all led to our FY 2016 results. Situations around us also serve as tailwind for us. The nation's low childbirth and aging population have made labor shortage and aging workforce prevalent trends, making automation and streamlining a common challenge for businesses in raising labor productivity and optimizing costs. We are also seeing more business opportunities arise for solutions involving RFID and collaborative robots for businesses wanting to change the way they work.

Barcodes are now social infrastructure, and the Auto-ID market in Japan is well matured. Yet seeing it in terms of a value chain, we discover so many new needs and potential for growth; knowing our customer's sites, we have so much more that we can do. Item management (in retail, purchasing and inventory), for example, which has been primarily static, now demands real-time location data. To meet this demand, we need to combine our stronghold Auto-ID technology in RFID tags with positioning technology. And for our logistics customers who are optimizing operation routes in hopes of cutting cost, we can offer solutions on labor management, including ways of managing the route data to heighten productivity with limited human resources. In other words, customers demand solutions not just for the immediate issues at hand but for the broader, entire operation as well. That's where we will answer with unique, value-added "+One" solutions, which would come to enhance our earning power.

Strengthening marketing

Seeking to run sales operations strategically, we launched a CRM (customer relationship management) system this summer that singly manages information obtained at our points of contact with customers, and allows sales and supporting departments to view and analyze the data. Our customer base that amounts to 20,000 accounts and over 100,000 end-user companies in Japan alone is, without doubt, our asset. With the system allowing all our group companies and departments that have direct or indirect contacts with customers to collaborate organically, we heighten efficiency in our operations and satisfaction in our customers, leading us to draft business strategies and improve procedures all from customer-centricity.

We also try to share and make use of knowledge. Much of our group's business still rely on its human aspects, such as experience-based wisdom or *genbaryoku* mindset of our veteran members. All the "customized solutions" (tacit knowledge) created from individual knowledge are made visible on our in-house system, the collective source from which we are starting to derive "standardized customizations" (explicit knowledge) that are knowledge on how we approach certain markets, business types or purposes. These are our sales "templates" that we would apply to our marketing tools and use as an organization.

Building people who drive our solutions

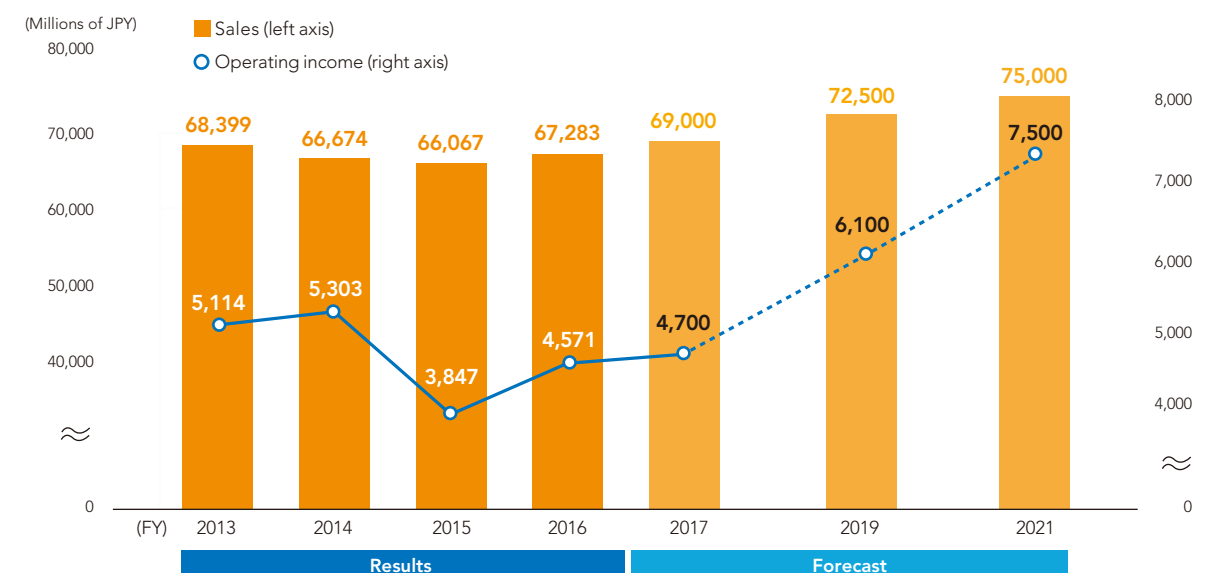
Today, products and services are more complex and technological innovations are being made faster than ever. In providing a higher level of service, we need to not only stay on top of product and industry knowledge, but also take urgent action to develop people who could identify the customer's management and on-site issues, and get numerous people involved in resolving them. That's why we set up a department within SATO Corporation that specializes in training "solution-oriented" talents, and launched a program aimed to improve individual and collaborative capabilities. Multifaceted evaluation is a way of assessing an individual on skill criteria (ability to gather information, develop hypotheses) and mindset/action criteria (level of trust from customer; being purpose-driven). Employees are able to see themselves objectively to initiate positive improvements, while managers

can incorporate the assessments into their department's HR plan to use in selecting and training core human resources.

We also offer training programs and support on taking correspondence courses to acquire certification or certain skill sets/mindsets that meet one's level. A young salesperson, for example, can now accompany an ace-level salesperson for a full month to learn hands-on how to talk with customers or conduct negotiations. Manager candidates receive training on sales management aimed to improve organizational performance.

The three actions have already prompted positive change, which we must now transform to evident results. We set FY 2017 as the decisive year to do so, and shift our actions into higher gear.

Auto-ID solutions business (Japan)





Strengthening our core business overseas through end user-centric DCS & Labeling solutions and partnerships

Executive Officer, SATO Holdings Corporation
President, SATO International

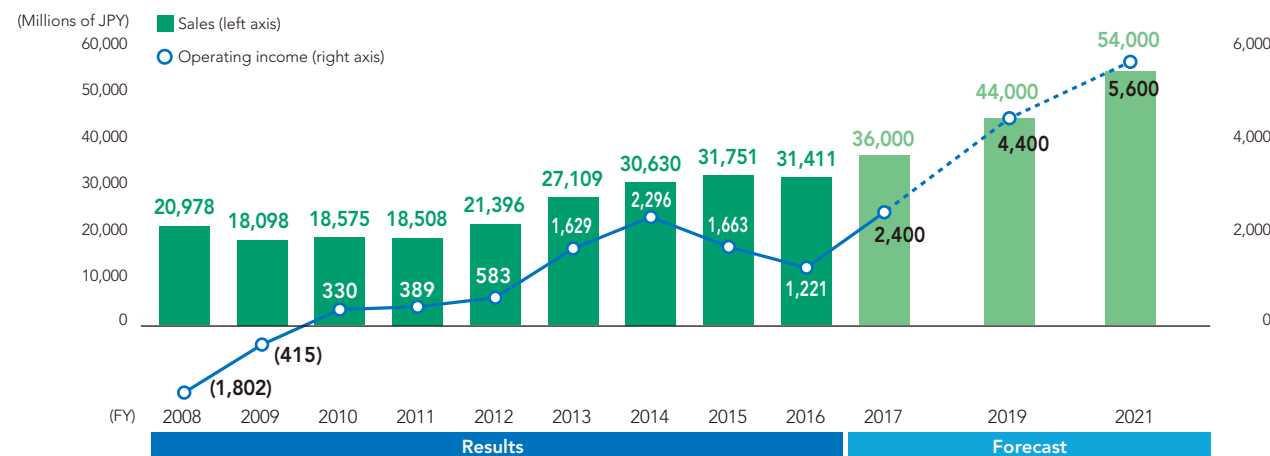
Yasuhiro Tanabe

Implementation challenges

Our overseas sales ratio has grown from 20.0 percent in FY 2000 to 36.6 percent in FY 2016. Is growth of our core Auto-ID solutions business in line with the market worldwide? To be honest, it is still a work in progress. Since the 2008 financial crisis, our Europe business operated in the red for several years. We took efforts to conduct organizational restructuring after the financial crisis and worked to establish business in

developing countries, which is why we acquired Argox in 2012 and set up offices in India, Indonesia and Vietnam. These efforts paid off when we registered profits in FY 2013 in all markets where we operate, and record profits in FY 2014. In the two fiscal years since then, we have seen profits drop and our core business come to a standstill.

Auto-ID solutions — Overseas base business *Excluding primary labels



What caused this stagnation? We believe the key factor was the inconsistent roll-out of our DCS & Labeling model outside of Japan. We first established our core business model in Japan in the 1990s, reflecting our sales style of direct consultation with customers to propose individual solutions. The core strength of this model is our on-site consultation ability which we call *genbaryoku*. It is necessary to see the customer's operations firsthand on-site (at their sites, or *genba*) to understand their pain points. By developing customer-centric solutions based on field consultation, we have garnered top market share in Japan.

In overseas markets, we have followed the Japan model but have struggled to establish it in every market. Our branches in the United States, France, Thailand and Vietnam have delivered strong results as the model is becoming

established and mindset has shifted to the problem-solving proposal style we have found success with in Japan. In other markets, our branches have struggled due to a box-mover sales approach that relies on price and product specs. Due to reliance on distributors, our ability to capture new business has also been limited. Having little direct contact with the end user in certain markets has meant we have been unable to grasp the market changes and thus missed growth opportunities.

It takes time to establish a solutions sales approach. Even in Japan, it took twenty years to bring DCS & Labeling to fruition. Overseas, where the sales culture and competitive landscape are unlike Japan, we believe consistent global execution and strong information-sharing of best practices are necessary for success.

At our Group Summit meeting in 2017, we aligned with strong resolve to launch an action plan to address the issues at hand, with heavy emphasis on execution.

ACTION 1. Develop end user-centric solutions with our strategic printers

Go beyond selling printers to providing printing services for our CLNX series.

- We have developed two key value-added functions for our CLNX label printers — our SOS (SATO Online Services) IoT predictive maintenance system and the AEP (Application Enabled Printing) operating system which enables PC-less connectivity with customers' internal systems.
- We will utilize big data to propose operational solutions and provide applications that meet the requirements of customers as we increase engagement with our end users.



ACTION 2. Define global strategic market segments and focus on them as a global team

Set logistics, food & beverage and health care as our global target markets in our new medium-term plan. Form global teams with defined KPI in order to ensure systematic application of the PDCA cycle.

- We set strategies in line with the supply chain processes of our target markets, defining KPI and systematically applying the PDCA cycle to build business within these markets.
- One issue seen throughout the Group has been insufficient communication. To promote our global strategies we have formed teams that will share knowledge, know-how and best practices.



ACTION 3. Enhance solutions with open partnerships

Improve our ability to provide global solutions as articulated in our strategy to pursue all possible partnerships to solve customer problems.

- We will propose our own products and services in our solutions as much as possible, but we welcome any and all partnerships to provide comprehensive, one-stop solutions for customers and unique value that only SATO can offer.
- We will continue to strengthen collaboration with distributors.
- We will focus on strategic alliances such as our partnership in 2017 with world-class warehouse management system (WMS) provider Manhattan Associates as an official hardware partner. Through collaboration with global industry leaders, we seek to garner increased business opportunities on the global stage.

A new dimension of innovation to adapt to the changing world

President & CEO,
SATO Holdings Corporation

Kaz Matsuyama



Individualized emotional stories and personalized messaging, on your favorite brands, with unprecedented speed

The SATO Materials Revolution

We launched our materials business with the Econano label in 2011. This was the world's first CO₂-reducing label, developed jointly by SATO, Dr. Masahiko Abe of Tokyo University of Science, and Acteive. It lowers environmental impact by reducing CO₂ emissions at the time of incineration. In recent years, Econano applications beyond labels are gaining popularity for reduction of CO₂ emissions in food packaging and more.

In January 2017, SATO completed the acquisition of DataLase to make it a fully-owned subsidiary and added the revolutionary Inline Digital Printing (IDP) technology to its portfolio. This technology comprises a unique color-change pigment which is applied as a coating to virtually any substrate and exposed to a laser beam to create a color change.

It is already being implemented by global manufacturers for fast-moving consumer goods (FMCGs) such as food and beverages, and for printing lot numbers directly on the package. DataLase has developed a number of technology alliances and global partnerships in the ink and laser arena and aims to establish multi-color capability by 2020.

Why is SATO — known for Auto-ID solutions — moving into the business of eco-materials and color-change materials? It may seem counterintuitive but this is the evolution of how we bridge the last inch of customers' last mile challenges. This business is perfectly aligned with the digital transformation and it is in line with our corporate mission of creating new value for our customers and contributing towards a better and more sustainable world.

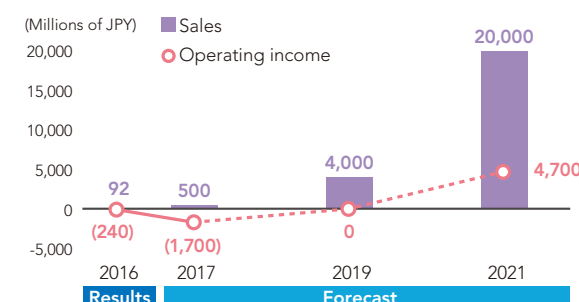
Shifting to a B2B2C approach

We added materials business to our FY 2017–21 medium-term management plan as a totally new business domain for SATO. While the core essence of what we do is tagging information to things and people, we feel that traditional tagging methods will be insufficient to meet consumer needs as they change and diversify. As explained earlier regarding external changes (Pages 11–12), the shift from mass marketing to personalization is accelerating, making it increasingly difficult for marketers to provide consumers value that meets their expectations. This is why we seek to demonstrate to players upstream in the supply chain the functional superiority of truly individualized packaging materials that enable a new dimension in product design and brand story, and reach consumers with unrivaled speed. By enabling personalized information to each and every consumer, we provide the intangible value of emotional connections which contributes to deeper brand engagement with consumers.

Meanwhile, by integrating IDP with the existing SATO Auto-ID business, we seek to provide highly differentiated packaging to the market. For example, by combining IDP and Econano, there would be no need for replacement consumables (which are associated with inkjet printing) thanks to

direct laser marking. Also, with on-demand printing of variable data, it is possible to minimize SKUs (stock keeping units). Integrating this functionality with Econano allows for product packaging that leaves a smaller carbon footprint. Integration of IDP, high-quality primary labels and our design promotion business will allow us to propose solutions that extend from product packaging to store shelves. Going further, embedded RFIDs in packaging can provide even greater food safety assurance and show the potential of the SATO materials business in the IoT era.

Materials business



Value unleashed by the SATO materials business

(for beverage packaging)

Imagine you could have products with unique messaging on shelves the day after the championship game, or an individual consumer's name printed right on e-commerce product packaging.



Individualized information printed in high volume and at high speed

Ability to immediately reach consumers with product design and brand stories that match their interests

Personalization at the individual level (name, etc.)

Reduced environmental footprint with Econano, by decreasing CO₂ at the point of incineration

Value for brand owners

- Flexible integration into existing production lines
- High-volume, high-speed printing of variable information at the last stage of the manufacturing process
- Minimization of SKUs (e.g., 1 SKU even for multilingual messaging)
- Reduction of consumables; elimination of downtime due to use of lasers
- Reduced environmental impact (due to inkless and CO₂-reducing aspects)

Value for consumer (the customer's customer)

- Receive personalized products with the latest news or individualized messaging within 24–48 hours
- Personalize gifts from one consumer to another fast and with flexibility
- Fulfill increased level of environmental awareness in consumers

Generates synergy with SATO core business, Auto-ID solutions (primary labels, design promotion, RFID, audio and visual recognition)

* Image for illustrative purposes only. Multi-color technology will be launched by 2020.

Operational innovations from synergy between core business and materials business

The value offered by our materials business is not just for consumers. IDP fits well with SATO's Auto-ID solutions from the perspective of tagging things with information. It will increase the possibilities for optimized solutions that solve issues for our customers. In the past, attaching variable information to items meant labels or ink transfer, but now, necessary information can be printed directly on products and packaging, right in existing lines. High-speed, high-volume printing with minimal SKUs and zero consumables allows customers to increase productivity while reducing costs, and minimize their environmental footprint. Individualized packaging can be introduced to market at unparalleled speeds and with flexibility anywhere at lower manufacturing cost.

With rapid social changes and diversifying customer needs, we have reevaluated our business based on our strategic positioning of tagging things with information to bridge the last inch of our customers' last mile challenges. By integrating our core business with the materials business, we will seek to better meet market needs.

Continued steady growth is projected for the digital printing industry. With IDP, SATO Group provides the unique value of high-speed personalization and optimized, lower-cost manufacturing. We will nurture our materials business alongside the Auto-ID solutions business to ensure its profitability by 2019 and make it a major profit driver from 2020.

Customer-centric game-changing innovation

R&D

What does it mean to
“change the game?”

New products and solutions for the digital transformation

Executive Officer & Chief Product Planning Officer (CPO),
SATO Holdings Corporation

Noriyasu Yamada

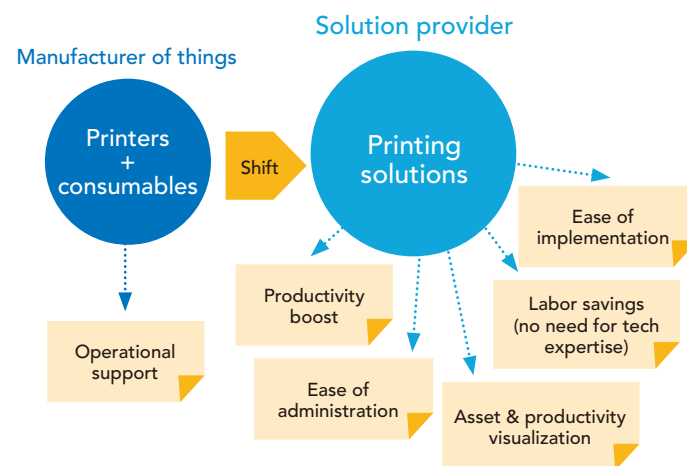


At SATO, we have a corporate culture of promoting customer-centric innovation in the spirit of Ceaseless Creativity. We rejoice in small changes, and this culture is the driver of our innovative spirit. Ever since our founding as a manufacturer, we have confronted and overcome external changes through revolutionary changes to our core business. The first of these was the invention of the hand labeler in 1962, when our founder Yo Sato saw retail employees laboring to attach handwritten price tags to each and every product in the store. He thought to himself, “How can I make this process easier?” Our founder instilled in us this core principle of bettering society through pioneering innovation. It was a continuous progression from our founding, as SATO eventually transformed into an Auto-ID solutions provider, delivering accuracy and efficiency for customers. In the current era of IoT and digital transformation, we strive to develop unique value for customers as a manufacturing integrator of future-proof solu-

tions that rewrite the rules of how to play, generating customer-centric, game-changing innovation.

We are working to revolutionize our go-to-market strategy and complete our evolution from a manufacturer of things to a provider of solutions. Instead of focusing solely on hardware specs, we aim to provide end users concrete value such as increased productivity, quality assurance and zero downtime. Organically integrating three key elements — products, IoT-enabled predictive maintenance, and networked services to boost usability — we maximize added value for customers.

Customer value for the IoT era



From printers to printing solutions

We launched our pioneer IoT printer series in 2014. In 2017, we have developed two platforms for SATO printers that bring improvements to operations. The first is our IoT predictive maintenance platform SOS (SATO Online Services), which evaluates printer usage to intelligently schedule servicing only when warranted. With fully integrated SATO IoT smart printers, enterprises can transform their business processes with better visibility to achieve preventative servicing and asset management. Another platform we developed to meet

the needs of customers is the AEP (Application Enabled Printing) enterprise label printing operating system, which enables smart, connected apps and PC-less operations, turning a printer into an intelligent printing hub. By organically integrating printers, applications and third party services, we transform the singular printer into a printing solution.

Additionally, by storing and maintaining customer data individually in the cloud, we seek to enable a smart hub that provides connectivity between SATO's cutting-edge products

and services and sophisticated third party enterprise tools, e.g., Customer Relationship Management (CRM) systems, which help businesses manage customer data and interactions, Enterprise Mobility Management (EMM) services, which ensure the safety and confidentiality of company data, and Warehouse Management Systems (WMS), which streamline warehouse operations from arrival to shipment.

With the increased adoption of mobile devices and cloud applications, we envision a one-stop service model where

label printers are connected with devices and value-added services and constantly evolving. The IoT era requires this kind of “smartization” of track-and-trace systems.

In the spirit of Ceaseless Creativity, we consistently take a uniquely customer-centric approach to identify the customers' hidden needs that they themselves do not recognize. We will continue to identify these needs and exceed the expectations of customers to weather external changes as we develop one-stop solutions that create new value.

Game-changing, one-stop solutions for the value chain with world-class RFID tags*

Executive Officer, SATO Holdings Corporation
Head of Apparel ID business

Tomoyuki Kumabayashi



In recent years, RFID is increasingly being implemented widely to accommodate the growth of e-commerce and boost productivity. Opportunity loss from out-of-stocks, overstocks and returns is costing retailers worldwide \$1.75 trillion a year. Especially for apparel retailers, there are strong needs for real-time visibility starting at the store and covering the entire supply chain to improve marketing efforts, drive efficiency and cut costs.

In order to provide these benefits with RFID, truly one-stop solutions are needed. Due to the fact that RFIDs use radio waves for identification, the slightest changes in the usage, like how products are situated in the warehouse and store shelves can negatively affect read rates. To bring true efficiency gains, solutions providers must understand the actual worksite and the entire supply chain while also providing high-quality RFID tags.

SATO has begun manufacturing original RFID tags at our Kitakami Operations facility in northern Japan. We have established a clean environment in the RFID production area with airborne particulate levels the same level as a

hospital operating room, and added testing equipment to enable production of the highest quality “Made in Japan” RFID tags for our customers.

We do not provide a one-time fix. SATO goes right to customer sites to understand their pain points and develop comprehensive, one-stop solutions with top quality RFID tags that provide benefits throughout the value chain. This is our game changer for RFID.



Kitakami Operations

Competitors' RFID tags

- Poor read rate depending on placement within warehouse or on store shelves
- Only limited operational improvements, not broadly across the value chain
- Inevitability of unreadable tags

SATO RFID tags

- Unreadable tags and tags likely to be unread after shipment are rejected
- Printers and tags are designed and manufactured in-house and customized to optimally meet customers' real world needs
- Transition from barcodes and 2D codes is made simple

*RFID tags are made of three components: an integrated circuit (IC), an antenna and a substrate. They enable contactless communication by radio waves and can be used with a variety of substrates from tags to stickers, labels, keys, capsules and more.

Financial strategy scenario



To build a revenue base for sustainable business growth amid globalization

Executive Officer & CFO,
SATO Holdings Corporation

Yoichi Abe

My role as CFO

SATO is driving its medium-term management plan at the group level, setting its sights on building a revenue base to power sustainable business growth amid globalization. As CFO, I feel I must firmly support our global and materials businesses which particularly hold promise of generating substantial growth, but are also subject to greater risk and uncertainty. Managing group-wide corporate governance, including internal controls and compliance, is also now a more important task than ever. I will work to create a stronger business base comprehensively geared to striking a balance between fiscal management and strategic investment so as to maximize our enterprise value.

My role is largely to provide financial advice to the CEO, COO and other members of the management team in terms of (1) aiding strategic decision making, (2) supporting business activities, (3) establishing a globally competitive business base, and (4) facilitating stakeholder communication.

- (1) When making strategic decisions, the management team needs to factor in ROE and capital costs, which are necessary to ensure stable and continuous profitability. In that regard, my role involves lending support by offering various forms of financial information and advice related to demand forecasting, risk analysis and assessment of potential synergies.
- (2) When it comes to business activities, I take steps to ensure that business strategies for achieving the medium-term management plan are thoroughly executed, monitoring such progress as appropriate. Whenever necessary, I support and advise SATO group companies individually to help drive our business overall.
- (3) With respect to establishing a globally competitive business base, we are expanding the SATO business in new ways that include acquiring specialized label manufacturers and starting a new solutions development company, so as to bring up our overseas sales ratio to 50 percent or more by FY 2021, the final year of our medium-term

management plan. Going forward, we will also be taking a multifaceted approach to manage and operate our wide range of companies with diverse regional characteristics, legal systems and rules in an integrated and effective manner. To such ends, a new organizational framework for the CFO to exercise direct control over the financial management of our global business has been established to go into effect this fiscal year. Through this, I aim to achieve the following: (1) Manage cash and cash equivalents centrally on a global basis to ensure effective use across group companies; (2) Establish a global tax policy that starts from enhancing our practices for transfer pricing taxation; and (3) Heighten transparency and minimize risks in accounting through thorough efforts in expediting the consolidated closing of accounts and considering the application of International Financial Reporting Standards (IFRS).

- (4) With respect to facilitating communication with our shareholders, investors and other stakeholders, I endeavor to actively explain both financial and non-financial information on the basis of our basic policies in consistency, continuity, speed and fair disclosure to bring about greater understanding of our sustained efforts to heighten shareholder value. Communication is two-way, so I will also work to listen to our stakeholders' expectations and feedback to apply them in our business management and strategies.

Basic stance of financial strategy

Our global financial strategy ultimately entails maximizing shareholder value (earnings per share) by increasing our business efficiency and developing a stable financial base in accordance with the following fundamental policies.

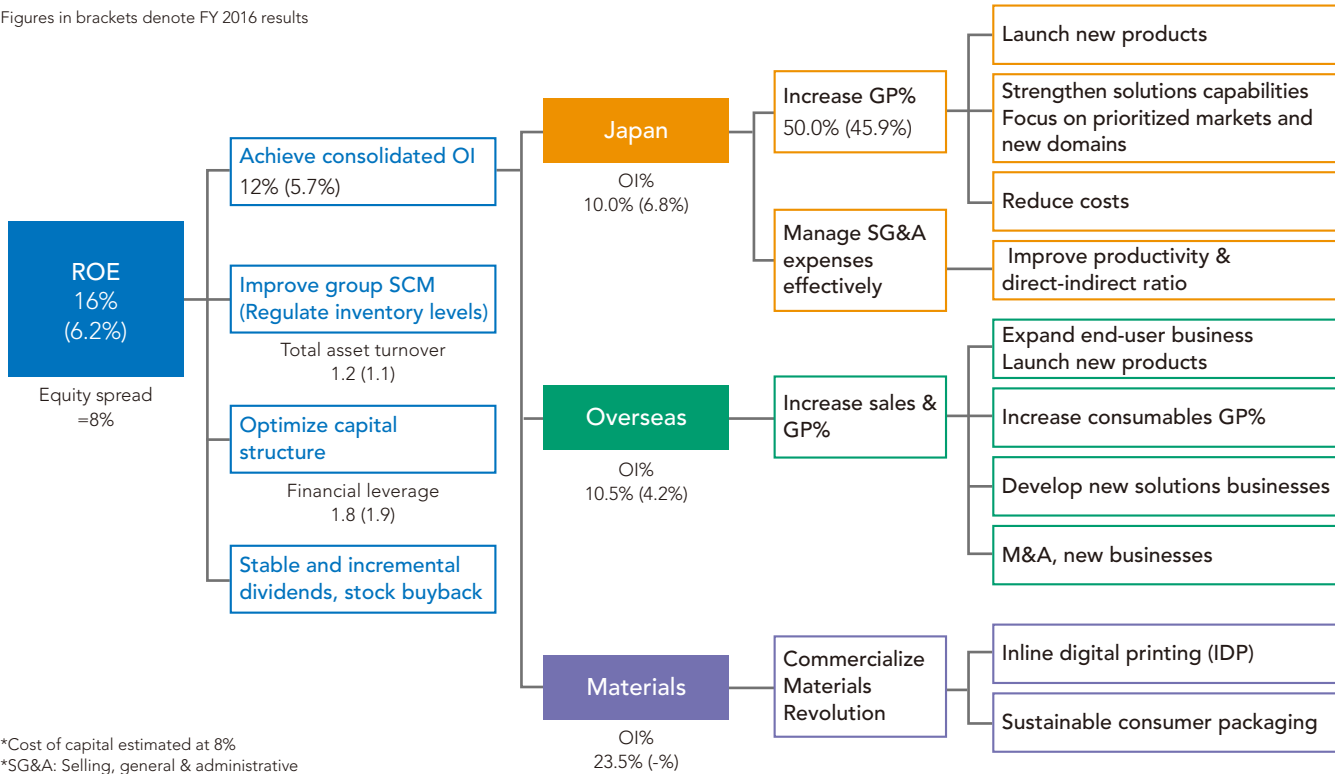
1. Improve capital productivity
2. Pursue optimal capital structure
3. Manage cash flows

1. Improve capital productivity

We have drawn up our roadmap to improving capital productivity as described below, with the understanding that ROE constitutes a key benchmark for the objectives of improving both capital productivity and heightening shareholder value.

Roadmap for improving capital productivity — Growth to FY 2021

Figures in brackets denote FY 2016 results



*Cost of capital estimated at 8%
*SG&A: Selling, general & administrative

SATO Group aims to achieve ROE* of 16% and an equity spread of 8% (with cost of capital estimated at 8%) in FY 2021. The roadmap, therefore, plays a critical role in increasing awareness of this ROE target in employees and steering their day-to-day activities constantly toward achieving such goals.

It includes specific measures and aspects for increasing ROE, as follows.

- (1) Achieve consolidated OI
- (2) Improve group SCM (Regulate inventory levels)
- (3) Optimize capital structure
- (4) Stable and incremental dividends, stock buyback

Of the four, we place top priority on increasing consolidated operating income ratio, aiming to increase it to 12% by FY 2021 through the following actions.

- (1) In Japan, we will work to increase profitability by enhancing our sales capacity with our shift from sales of products to sales of total solutions, reducing costs, and improving productivity.
- (2) Overseas, we will take steps to improve profitability by expanding the scale of our business, which will involve entering as-yet-untapped markets and extensively developing markets where we have a low market share. We will also transfer sales know-how leveraging *genbaryoku* (proactive understanding of customer operations) from our Japanese business.
- (3) We expect the materials business, a new addition to our latest medium-term management plan, to contribute greatly to profitability improvement as we take concrete actions such as commercializing our Inline Digital Printing (IDP) technology and Econano-based sustainable consumer packaging solutions to realize a Materials Revolution.

*ROE=Net profit margin x Asset turnover x Financial leverage

Message from the CFO

In addition, we will review supply chain management (SCM) from a group-wide perspective using total asset turnover as an indicator to improve and optimize inventory levels at our

printer plants in Malaysia, Vietnam and Taiwan, our 39 sub-contracting plants in Japan, label plants overseas, and our respective sales locations worldwide.

2. Pursue optimal capital structure

We use financial leverage to measure how optimal our capital structure is. Comprehensively taking into account growth opportunities in our overseas and materials businesses, along with associated risks in that regard, we aim to maintain our

equity ratio at 50 percent or more, which equates to a financial leverage of no more than 2.0 times, while balancing this with dividends and other shareholder returns.

3. Manage cash flows

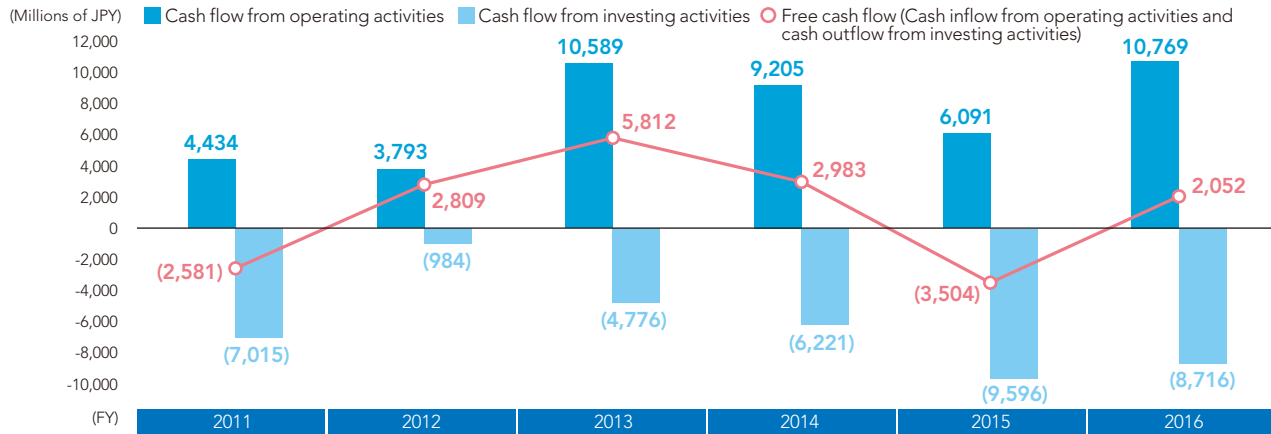
Throughout past fiscal years, we have kept our free cash flow positive (with the exception of FY 2015*) while undertaking large-scale investments for sustainable growth. This is possible because we have continued to generate cash flows from high quality operating activities through expansion of our existing and acquired businesses since FY 2013. Even in FY 2016, when we invested ¥8.7 billion for purposes including the additional share acquisition of UK company DataLase, we achieved a record-high cash flow from operating activities of ¥10.7 billion to help maintain a free cash flow of ¥2.0 billion.

Our basic stance for cash flow management is to maximize cash flows from operating activities through our existing base businesses to increase/maintain high levels of free cash flows, without relying excessively on borrowings or other outside sources. With respect to non-M&A capital expenditures which

form the basis of cash flows from investing activities, we will continue making investments for improving profitability and sustaining growth (e.g., purchase of label printing presses/printer manufacturing equipment, factory construction/expansion, in-house system upgrade), while also allocating resources to support our growing focus on the RFID solutions business. As we build up internal reserves to address financing demand from our core businesses and areas of growth, we will also provide returns in the form of dividends paid directly to our shareholders so as to build up a virtuous cycle to improve shareholder value in a sustainable manner.

*In FY 2015, we used a greater amount of cash in investing activities that included acquisition of Brazilian firm Prakolar, acquisition of DataLase shares, and construction of new label plants in Indonesia and Poland.

Trends in cash flows



Shareholders' equity and interest-bearing debt

In principle, we aim to sustainably improve shareholder value and maintain levels of shareholders' equity necessary in

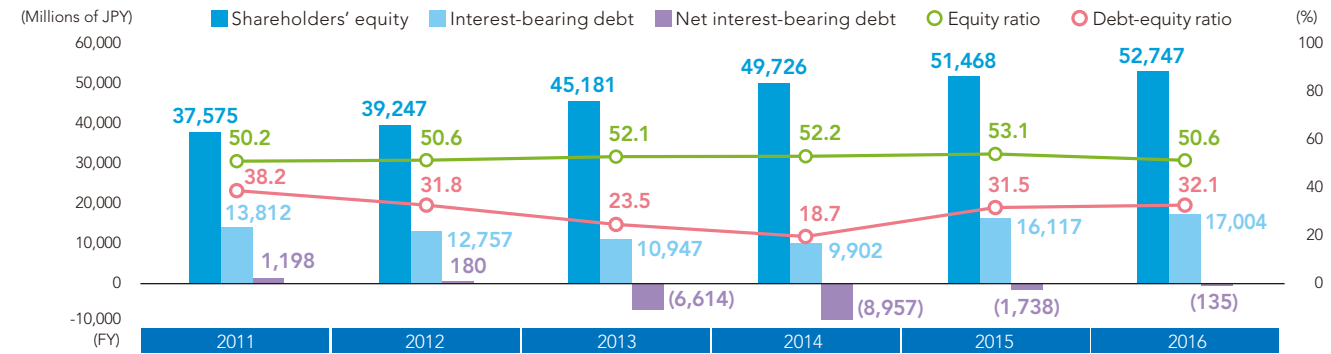
order to swiftly and steadfastly tap opportunities for business growth. We will review and adjust such capital levels as

appropriate to ensure that we remain financially sound within the risk tolerance limits of our business activities.

We will also continue to keep net interest-bearing debt at

its current negative levels to ensure that SATO stays debt-free for financial strength and stability.

Shareholders' equity and interest-bearing debt

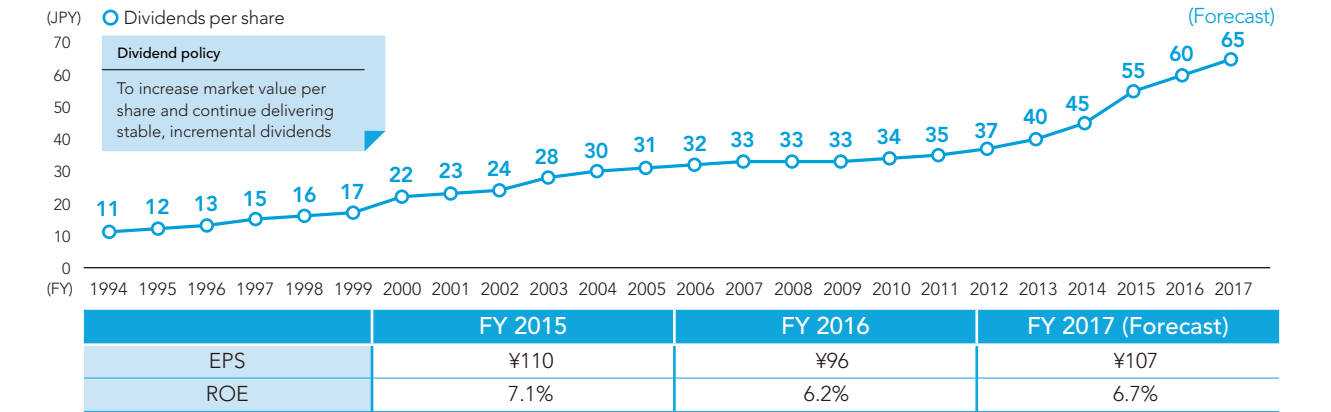


Basic policy for shareholder return

Our basic policy is to return part of our profits to shareholders in the form of dividends while retaining internal reserves to address financing demand from our core businesses and areas of growth in order to increase our enterprise value and maximize shareholder value. Under this policy, we paid annual dividends of ¥60 per share for FY 2016, and project to increase this by ¥5 to achieve a dividend payout of ¥65 per share for FY 2017.

In determining these dividend amounts, we comprehensively consider the importance of free cash flow and EBITDA which reflects our earnings potential as well as the signaling effect it will have on the market. For the next few years, we will keep our sights on the numeric targets set in our FY 2017–2021 medium-term management plan, and continuously endeavor to deliver stable, incremental dividends and increase our market value per share without being influenced by single-year financial results.

Trends in annual dividends



Repurchase of treasury shares

We regard repurchase of treasury shares as a means of heightening capital efficiency and increasing our market value per share. In making such repurchase, we will take into account the balance between future stock price trends and financing demand for growth investments. When it has been

determined that such repurchase of treasury shares will benefit shareholder value, we will submit the proposal at our Board of Directors' meeting for resolution, and promptly disclose details. We will also disclose the amount of treasury shares to be repurchased once it is decided.

In fulfilling my role as described above, I hope to contribute toward the realization of our medium-term management plan and achieve goals set in our global financial strategy for increasing business efficiency, developing stable profitability and maximizing shareholder value.

Building People, Building Business

Human resource development at SATO Group

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



Basic concept

At SATO Group, we believe business growth and human resource development are inseparable and “Building People, Building Business” is the responsibility of every manager. This is because we have built up our business on “value that people create,” which is about employees going to the customers’ operation sites, understanding the issues and providing solutions. For us to keep up with the digital transformations of today, we need to develop our strength

in solutions even more. Even our workstyle innovations are driven not for the sake of running an initiative but considering how the way we work could help us create customer value. The essential management challenges for SATO Group are to build up potent teams over individual strengths, to create customer values and to drive sustainable growth of the company. Tackling these challenges is my mission as Chief Human Resources Officer.

Develop talent that embodies SATO Values

Then, the question is, “What kind of people do we want to build?” The answer is, “People who embody the SATO Values.” Diversity is one of our business strategies; corporate values are what bring the diverse strengths of individual employees together. They shape what become the characteristics and strengths of the company. For example, “Go see the customer’s site” is a code of conduct that structures our business model that values customer sites. Our corporate values are closely linked to management decisions and business actions. SATO Holdings established the SATO Values Office under the direct supervision of the CEO in order to ingrain our corporate values in all employees including those overseas, where more than half of our Group’s employees are based. It shares examples of actions that embody SATO

Values, while promoting various programs throughout the Group. It has assigned 50 SATO Values Leaders around the world who lead SATO Values actions locally. These Leaders attended SATO Group Summit 2017 together with our global leaders and participated in SATO Values workshops.

We are also promoting Teiho (*see Page 7) globally. In the past year, Taiwan, UK, France, Germany and Australia started Teiho. I believe Teiho is a tool for participative management that encourages employees to “think” constantly. It is SATO’s unique method of human resource development that draws out capabilities in individuals who embody our corporate motto of Ceaseless Creativity and enhance our competitiveness.

Global human resource management

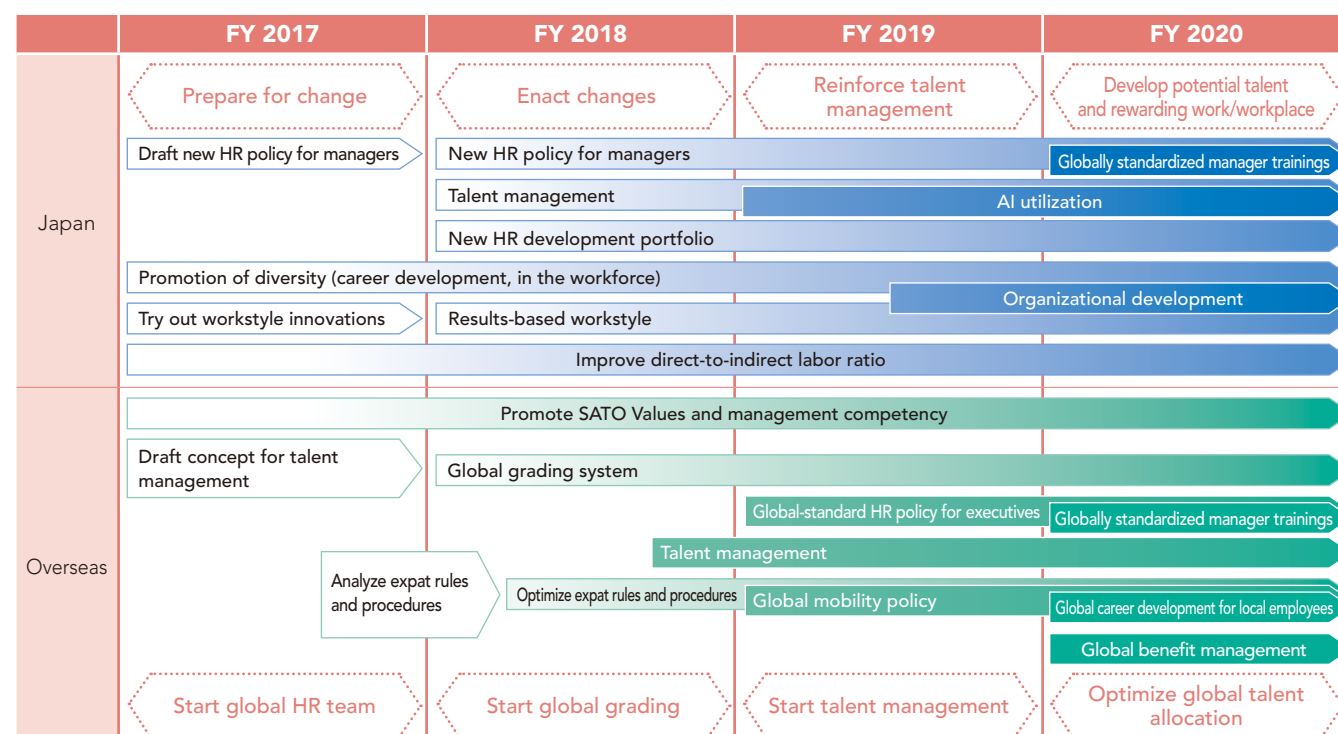
As we foster an employee mindset based on SATO Values, we will be organizing personnel systems based on our HR strategy roadmap that aligns with the medium-term management plan.

In Japan, we will switch the focus of our appraisal of managers from performance only to performance (50%) and competency (50%). By competency, we mean proficiency in behavior expected of managers, whose objective is “Building People, Building Business.” With clear criteria, we will have managers that meet our standards lead our company, which would result in greater team strength and sustainable growth of the company.

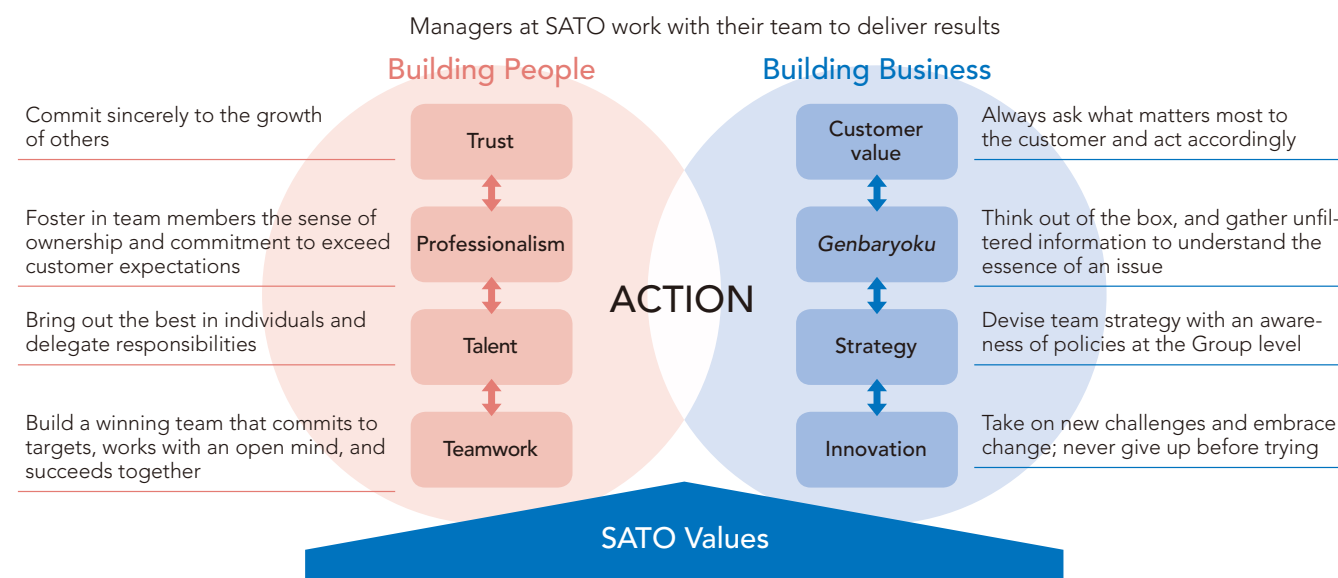
Overseas, we will implement global grading and talent

management systems that would enable us to see and manage information on individual talents, competencies and experiences — something we were unable to do up to this point. This move comes from our intent to place the right people on the right jobs on a global scale. By knowing the individual, we can prepare long-term development plans that maximize the talent’s strengths, and provide employees with opportunities to advance their careers. These new systems will be our first step to achieving customized human resource management that runs on a standardized system, and we hope they heighten business performance as well as employee motivation.

HR roadmap



Management competency at SATO Group



SATO is a Diversity Management Selection 100 company (selected in 2013) that METI*1 recognizes as having excellent diversity management practices.



SATO is one of the 24 enterprises named to the 2017 Health & Productivity Stock Selection by METI and TSE*2 as a company strategically managing its employees’ health and welfare at the company management level. This program nominates one listed company per industrial sector. SATO is also recognized by METI and Nippon Kenko Kaigi (Japan Health Conference) as a “White 500” organization implementing excellent health and productivity management.



*1: The Japan Ministry of Economy, Trade and Industry *2: Tokyo Stock Exchange

Environmental protection

We aim to conserve the global environment and work toward achieving a sustainable society with our new environmental policy and vision

Director, SATO Holdings Corporation
Environmental Management Officer and Chairperson of the Eco-management Committee
Koichi Nishida



Environmental management

The Eco-management Committee established in 2008 and Green Business Project started in 2012 are the two wheels that drive SATO's environmental management. This fiscal year, we renewed our environmental policy and vision to accelerate our environmental management.

Toward achieving environmental management



Progress of our medium- to long-term environmental management

Action items	Target contributions	Key indicators		FY 2016 results	FY 2017 target	FY 2020 target	FY 2030 target
Reduce environmental impact for customers using SATO's Econano, Nonsepa, and other green products	Reduce CO ₂ emissions (carbon footprint)	Japan Overseas	CO ₂ reduced (tons)	4,569	6,222	44,480	133,440
	Reduce water use (water footprint)	Japan Overseas	Water use reduced (m ³ /m ²)	109	111	117	351
	Reduce land use (land footprint)	Japan Overseas	Land use reduced (ha/m ²)	0.006	0.007	0.007	0.021
Reduce environmental impact of our business activities	Reduce scope 1 & scope 2 CO ₂ emissions	Japan	CO ₂ emitted, compared to FY 2013 (tons)	Cut by 12.6%	Cut by 8%	Cut by 15%	Cut by 26%
	Reduce scope 1 & scope 2 CO ₂ emissions	Overseas	CO ₂ emitted, compared to FY 2015 (tons)	Increased by 4.2%	Cut by 5%	Cut by 10%	Cut by 26%
Roll out forest ecosystem conservation activities	Reduce CO ₂ by participating in tree planting projects to conserve forests and coexist with nature	Japan Overseas	CO ₂ absorbed (tons)	13.2	13.2	40.0	145.0

Green procurement, complying with toxic substance regulations of each country

SATO Group exercises green procurement, cooperating with our business partners in meeting the EU RoHS directive and other toxic substances control regulations around the

world, and taking actions to reduce environmental impact in the supply chain. We have our own environmental management standard, "SIS-001," for our business partners to follow.

Environmental management (ISO14001 certification)

We make group-wide efforts to continuously improve our ISO14001-based environmental management system throughout our offices, factories and R&D sites all over the world.

SATO's own environmental standard, SATO Green Factory (SGF) certification, is comprised of 100-plus criteria based on

the ISO certification. This system encourages customers who are yet to achieve ISO14001 certification to establish environmental management systems. We support their initial stages of compliance, while our quality control department performs regular audits on all factories to heighten their levels of environment-friendliness and quality control.

FSC® CoC certification

SATO's consumables are FSC® CoC-certified. FSC® (Forest Stewardship Council®) is a worldwide organization to protect forests, people and wildlife, and accredits two reliable certifications: FM (Forest Management) certification for proper forest management, and CoC (Chain of Custody) certification to

authenticate products that are made of materials from the certified forests. SATO continues to comply with the FSC® certification program and take actions to achieve the Sustainable Development Goals (SDGs).

Providing products and solutions to minimize users' environmental footprint

SATO provides optimum products and solutions for users' operations to minimize impact on the environment through our in-house development and production of consumables and printer products.

Econano: Reduces CO₂ emissions

Econano is nanotechnology that reduces CO₂ emissions at the point of incineration. Since releasing the world's first Econano labels in 2011, we have applied this technology to other materials that are incinerated after use, with more in development. In FY 2017, it found application in food packaging as the world's first use of CO₂-reducing material for food products.



Nonsepa: Linerless labels

Having no release liner, Nonsepa reduces the amount of paper used while producing no liner waste to be disposed of or incinerated. We provide an array of printers that offer the best printing environment for Nonsepa labels.





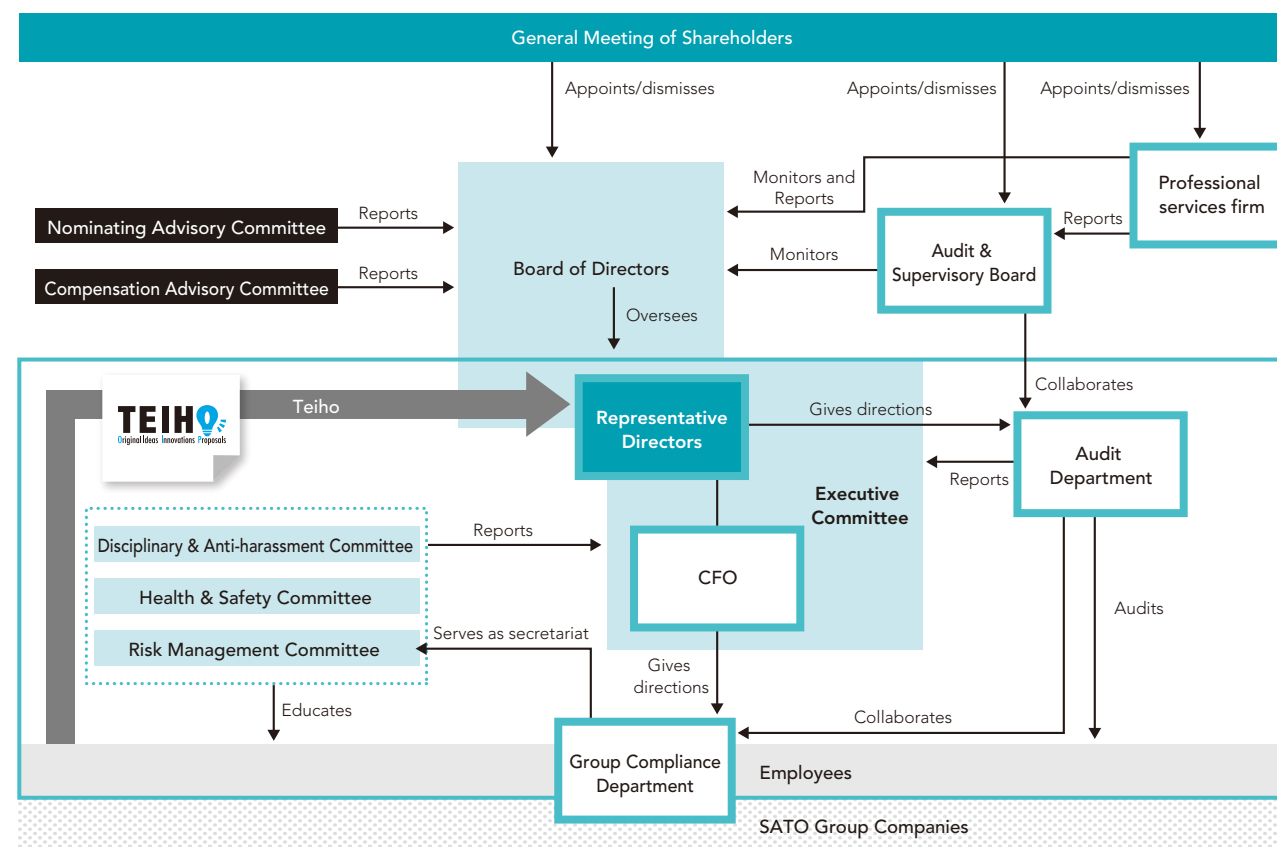
Basic concept

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



General Meeting of Shareholders

We believe the general shareholders' meeting is the most important event for us to have direct dialogues with shareholders and extend our mutual understanding. We schedule the meeting avoiding days on which many other companies hold theirs, and try to conduct the meeting in a way that encourages participants to voice their comments.

Board of Directors

• A majority of our directors are external

Aiming to establish sustainable growth and medium- to long-term improvement of our corporate value, we appoint independent external directors with diverse perspectives, extensive experiences and professional expertise. 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. These practices help us act toward resolving matters related to corporate governance.

• Directors chair the board in rotation; no seating arrangements

All internal and external directors without an executive role chair the Board in a rotating system, and there are no seating arrangements in the meetings. Every participant to the meetings joins open and free discussions to maintain transparency and fairness in management.

Since 2003, directors delegated by the shareholders to implement corporate governance and executive officers delegated by the board of directors to manage the company assume separate roles in our company's management system.

• Evaluations on effectiveness of the board of directors

To evaluate the roles and functionality of the board of directors, we conducted a survey and had a discussion with all the directors and auditors in May 2017. In the survey, all members answered that the system of chairing in rotation works effectively and enables free and open discussions. Other comments included requests for executive officers to report their executive actions more often, and materials for the meetings to be shared to members earlier to allow everyone more time to read and make the discussions more productive. We will analyze the feedback and implement improvements in our action plans.

Nominating Advisory Committee, Compensation Advisory Committee

Each advisory committee is composed of three external directors and one representative director/president, while the chair is selected from the external directors.

In the advisory committees, decisions are made only by the external directors. The Nominating Advisory Committee deliberates and advises on appointment policies and candidates of directors, and the Compensation Advisory Committee on the directors' remuneration system, its standards and amount.

Executive Committee

The Executive Committee is the highest decision-making body in terms of business execution, making decisions on management and its policies. This committee consists of executive directors, group company presidents, and executives nominated by the president of SATO Holdings to maintain transparency in making important executive decisions.

Disciplinary & Anti-harassment Committee, Health & Safety Committee, Risk Management Committee

The Disciplinary & Anti-harassment Committee takes initiative to maintain order in the company. It strictly examines compliance breaches of employees to promote and reinforce compliance to rules.

The Health & Safety Committee aims to enhance health and safety measures throughout SATO Group, and sets clear and basic rules to prevent accidents at work. It promotes safety, health and welfare, while creating a better environment for our workplaces.

The Risk Management Committee identifies risks of the Group and draws up measures that prepare the company for potential incidents. In the event of an emergency, the committee serves as the crisis management headquarters to assume control of the overall Group by planning detailed schedules and actions for recovery/restoration.

Audit and Group Compliance Departments

The Audit Department conducts financial audits, operational audits and compliance evaluation. The Group Compliance Department works with the administrative departments of the Group to set up and administer the operational rules and provide support for improvements from the perspective of group-wide optimization.

By separating the operation department from the auditing department, we establish a fair and optimized environment for us to run corporate governance.



Directors

- 1 Kazuo Matsuyama
President and CEO,
SATO Holdings Corporation
- 2 Ryutaro Kotaki
Executive Vice President and COO,
SATO Holdings Corporation
President, SATO Corporation
- 3 Koichi Nishida
- 4 Ikuo Dobashi
- 5 Tatsuo Narumi

Outside Directors

- 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, Graduate School of Media and Governance,
Keio University
Representative Director, Planet Plan. Co., Ltd.
- 9 Mitsuaki Shimaguchi
Professor Emeritus, Keio 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

Audit & Supervisory Board Members

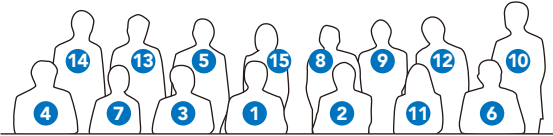
- 12 Nobuhiro Yokoi
- 13 Junichi Nagakura

Outside Audit & Supervisory Board Members

- 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.
Managing Director, SATO Auto-ID India Pvt. 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.
- Yoshinori Sasahara
Senior Executive Officer,
SATO Holdings Corporation
Vice President, SATO Corporation
- 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 Apparel ID business,
SATO Holdings 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
Head of PJM business
President, SATO Healthcare Co., Ltd.
- 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),
Head of Kitakami Operations,
SATO Holdings Corporation
- Noriyasu Yamada
Executive Officer,
Chief Product Planning Officer (CPO),
SATO Holdings Corporation
- Goro Yumiba
Executive Officer,
SATO Holdings Corporation
Head of North America
Chairman and President, SATO America, LLC.
Chairman and President, SATO Global Solutions, Inc.

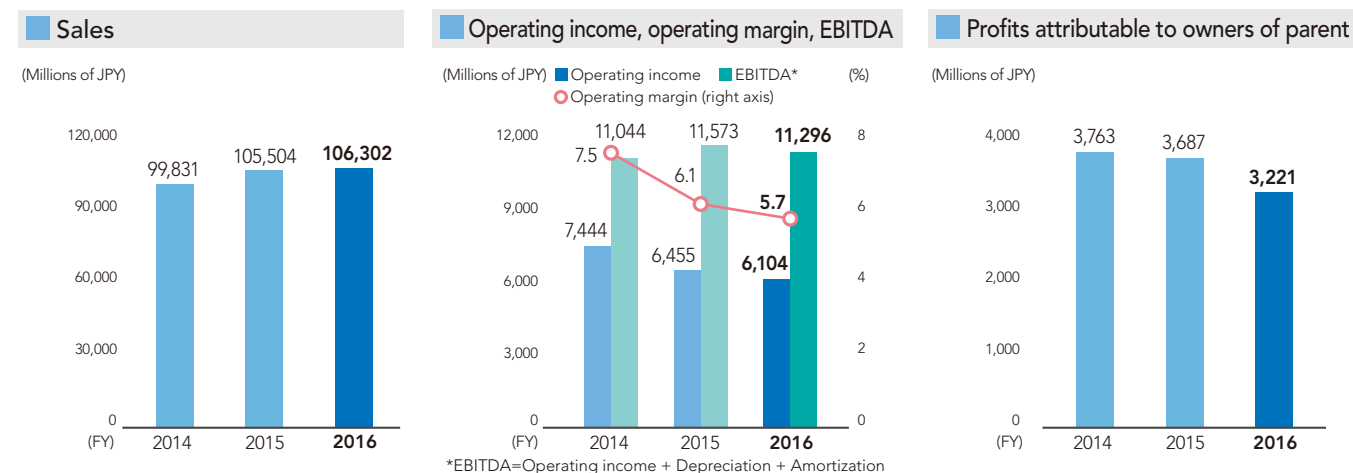


(As of September 2017)

Overview of financial performance during the fiscal year ended March 31, 2017 (FY 2016)

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

Our consolidated operating results were largely impacted by the significant reduction in operating income overseas (down 37.4%) — a result of declining market conditions in emerging countries and currency fluctuations — which outweighed strong operating income gains made in Japan (up 13.8%) from profitability improvements.



By segment

Japan

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

Given the trend of overall labor shortage, demand for automation and streamlining operations in the logistics (including e-commerce), manufacturing, and other industries remains upbeat. A growing number of business discussions are taking place as we steadily commercialize our field-proven, customer-specific solutions as standard packages for the respective industries.

Going forward, we aim to achieve stable growth in the domestic market by further strengthening our solutions capabilities.

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

Americas

In the North American market, sales and operating income increased significantly year on year as SATO America posted better-than-expected growth in its label business with a major pharmacy chain, and continued strong sales of barcode printers including the CLNX series. At SATO Global Solutions (SGS), large-scale orders of printers for food management applications led to a year-on-year increase in sales.

Operating losses, on the other hand, rose from the previous fiscal year as delays in R&D on the retail-focused digital solution it is driving with several major global companies caused its official launch to be postponed until next term.

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

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

Europe

In the European market, sales at our primary label company Okil-Holding, JSC in Russia grew steadily on a local-currency basis, but its operating income declined significantly from the previous fiscal year due largely to one-time losses relating to an inventory review. For our existing business, local-currency revenues and profit rose as we were successful in growing CLNX sales volume significantly in countries such as Germany and implementing various measures to strengthen our sales structure. We are now working to establish stable repeat business for supply products, while utilizing our new label plant in Poland that began operations in March 2016.

Under these circumstances, sales fell 4.4% to ¥12,525 million (a rise of 9.0%, excluding foreign currency effects) and operating income fell 30.1% to ¥584 million, compared to the previous fiscal year.

Asia and Oceania

India, Indonesia, and Vietnam continued to achieve double-digit sales increases in local currency versus the previous fiscal year, while key markets such as China, Thailand, and Singapore struggled to grow their businesses with Japanese companies in the manufacturing sector amid economic slowdown, leading to only a single-digit increase in local-currency sales. Operating income decreased year on year as we made investments to strengthen business in Indonesia with the opening of a new local label plant in May 2016 and establish sales subsidiaries in the Philippines and Taiwan in response to increased local demand for auto-identification solutions. In Oceania, operating income grew robustly for our sales companies, and earnings

improved for SATO Vicinity, which develops solutions based on PJM, our proprietary RFID technology.

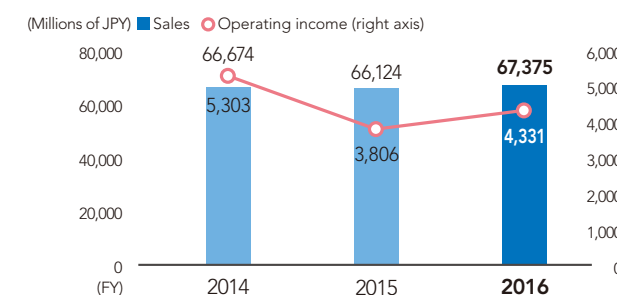
When compared to the previous fiscal year, Taiwan's Argox Information Co., Ltd. reported lower sales and operating income due to downturn in the market environment and delays in the introduction of new products.

By overhauling its sales structure, Argox is expected to recover earnings through development of new growth markets and introduction of new products.

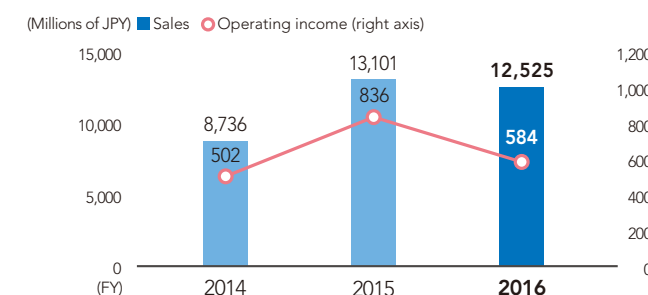
The Asian markets are very important as they account for a high share of our operating income, and we expect them to grow further going forward. We will continue to consider investing business resources for further market expansion in the region.

Under these circumstances, sales decreased 6.1% to ¥12,821 million (a rise of 4.2%, excluding foreign currency effects), and operating income fell 26.3% to ¥965 million, compared to the previous fiscal year.

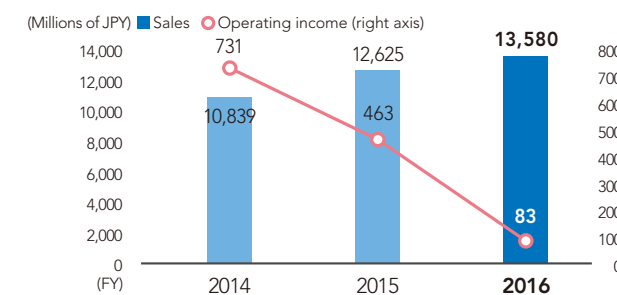
Japan



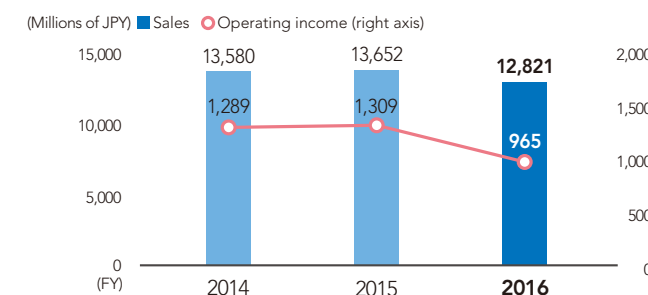
Europe



Americas



Asia and Oceania



Forecasts for FY 2017 (Fiscal year ending March 31, 2018)

The SATO Group is projecting sales of ¥113,500 million (up 6.8%) and operating income of ¥6,000 million (down 1.7%) for FY 2017, as initially disclosed on May 9, 2017.

This consolidated forecast first takes into account the performance of our Auto-ID solutions base business, which is expected to achieve record highs in both sales (¥113,000 million) and operating income (¥7,700 million).

It also considers the materials business we entered into

full-scale this fiscal year with Inline Digital Printing and Econano, where operating loss is expected to amount to ¥1,700 million largely due to DataLase's R&D costs and amortization of goodwill.

The entire Group will work together in swiftly implementing the different strategies of our medium-term management plan to achieve our full-year forecast.

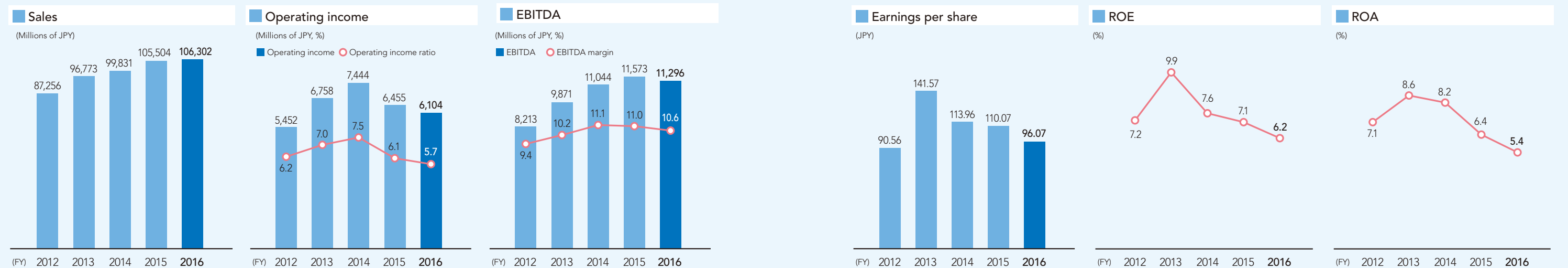
Financial highlights

Fiscal years ending March 31

(Millions of JPY)

	FY 2006	FY 2007	FY 2008	FY 2009		FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Business Performance												
Sales	82,491	87,790	78,163	74,917		78,368	80,536	87,256	96,773	99,831	105,504	106,302
Overseas sales ratio	31.5%	31.6%	26.8%	24.2%		23.7%	23.0%	25.6%	29.3%	33.2%	37.3%	36.6%
Gross profit	35,890	37,857	32,399	31,279		33,018	34,217	36,410	41,180	42,708	44,942	45,022
Selling, general and administrative expenses	30,195	32,453	31,669	28,705		28,791	29,564	30,958	34,421	35,264	38,487	38,917
Operating income	5,695	5,404	730	2,574		4,226	4,652	5,452	6,758	7,444	6,455	6,104
EBITDA (Earnings before interest, tax, depreciation and amortization)	8,180	8,208	3,565	5,123		6,417	6,830	8,213	9,871	11,044	11,573	11,296
Profit attributable to owners of parent	2,389	2,062	2,050	781		503	1,953	2,726	4,295	3,763	3,687	3,221
Financial position												
Total assets	66,923	66,103	61,692	64,203		66,134	74,830	77,521	86,737	95,174	96,887	104,280
Net assets	37,508	36,671	35,918	35,985		34,929	36,172	40,205	46,734	53,158	52,155	54,217
Research and development	1,501	1,728	1,922	1,826		1,902	1,859	2,042	2,225	2,292	2,414	2,387
Capital expenditures	4,278	2,424	2,361	2,387		5,084	1,836	3,059	6,106	7,372	6,717	5,723
Depreciation and amortization of goodwill	2,484	2,804	2,835	2,549		2,190	2,177	2,760	3,112	3,599	5,118	5,191
Cash flow												
Cash flow from operating activities	2,912	4,108	4,994	5,860		1,595	4,434	3,793	10,589	9,205	6,091	10,769
Cash flow from investing activities	(4,066)	(2,522)	(2,217)	(2,093)		(4,283)	(7,015)	(984)	(4,776)	(6,221)	(9,596)	(8,716)
Free cash flow*	(1,154)	1,585	2,777	3,766		(2,687)	(2,581)	2,809	5,812	2,983	(3,504)	2,052
Cash flow from financing activities	496	(793)	(2,476)	(826)		(3)	3,273	(2,839)	(1,511)	(3,062)	3,254	(1,343)
Cash and cash equivalents at end of year	10,344	11,035	10,814	13,774		10,813	11,377	11,992	16,763	17,145	16,212	16,757
Per-share data (JPY)												
Net income (Earnings per share)	76.30	66.70	67.40	25.95		16.71	64.87	90.56	141.57	113.96	110.07	96.07
Book value per share	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	1,525.09	1,579.53
Dividends per share	32	33	33	33		34	35	37	40	45	55	60
Financial Indicators												
Gross profit margin	43.5%	43.1%	41.5%	41.8%		42.1%	42.5%	41.7%	42.6%	42.8%	42.6%	42.4%
Operating income ratio	6.9%	6.2%	0.9%	3.4%		5.4%	5.8%	6.2%	7.0%	7.5%	6.1%	5.7%
EBITDA margin	9.9%	9.4%	4.6%	6.8%		8.2%	8.5%	9.4%	10.2%	11.1%	11.0%	10.6%
Return on assets (ROA)	8.5%	7.1%	0.6%	3.6%		5.7%	5.9%	7.1%	8.6%	8.2%	6.4%	5.4%
Return on equity (ROE)	6.4%	5.6%	5.7%	2.2%		1.4%	5.5%	7.2%	9.9%	7.6%	7.1%	6.2%
Equity ratio	56.0%	55.4%	58.1%	55.9%		52.7%	48.3%	51.7%	53.7%	55.6%	52.8%	50.8%
Debt-equity ratio**	15.6%	18.5%	17.1%	19.6%		24.9%	38.2%	31.8%	23.5%	18.7%	31.5%	32.1%

*Net cash provided by operating activities and cash used in investing activities
**Including lease obligations and zero coupon convertible bonds



Financial statements

Consolidated balance sheets

	(Millions of JPY)				
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Current assets	46,690	53,647	56,331	54,235	55,571
Cash and deposits	12,577	17,562	18,859	17,856	17,139
Notes and accounts receivable – trade	20,942	22,390	23,132	22,460	23,215
Securities	93	198	175	187	236
Merchandise and finished goods	6,632	6,852	7,781	7,264	7,585
Work in process	190	226	332	422	607
Raw materials and supplies	1,858	2,199	2,846	2,795	2,798
Accounts receivable – other	884	1,453	1,061	1,563	1,577
Income taxes receivable	1,035	—	—	—	—
Deferred tax assets	1,492	1,625	872	738	819
Other	1,069	1,281	1,419	1,086	1,760
Allowance for doubtful accounts	(86)	(143)	(149)	(139)	(168)
Non-current assets	30,831	33,089	38,843	42,652	48,709
Property, plant and equipment	18,694	20,337	21,126	24,853	27,351
Buildings and structures, net	5,414	5,149	4,998	6,420	7,274
Machinery, equipment and vehicles, net	4,330	5,547	7,718	10,146	10,496
Tools, furniture and fixtures, net	1,006	1,157	1,794	1,511	1,339
Land	7,657	8,017	4,975	5,440	7,066
Construction in progress	286	465	1,639	1,335	1,174
Intangible assets	6,600	7,708	12,760	10,834	16,607
Goodwill	4,774	4,058	6,291	4,596	10,942
Software	954	1,141	993	4,877	4,151
Leasehold rights	187	190	192	167	144
Other	684	2,318	5,283	1,193	1,368
Investments and other assets	5,536	5,043	4,956	6,963	4,750
Investment securities	247	1,308	1,456	3,448	1,379
Long-term loans receivable	363	113	265	371	376
Guarantee deposits	604	599	650	626	615
Deferred tax assets	3,109	1,780	1,251	1,035	1,220
Net defined benefit assets	—	3	4	2	—
Other	1,647	1,674	1,731	1,894	1,846
Allowance for doubtful accounts	(436)	(436)	(403)	(414)	(687)
Total assets	77,521	86,737	95,174	96,887	104,280
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Current liabilities	27,405	31,346	33,271	33,750	34,446
Notes and accounts payable – trade	5,180	5,698	7,067	6,475	7,702
Electronically recorded obligations – operating	—	—	—	—	11,668
Short-term loans payable	3,954	4,137	3,333	7,783	4,338
Lease obligations	571	524	845	676	686
Accounts payable – other	13,372	15,691	14,375	13,054	1,876
Income taxes payable	478	947	1,685	947	1,714
Provision for bonuses	173	239	285	269	247
Provision for directors' bonuses	19	42	—	—	—
Provision for product warranties	39	41	46	117	223
Other	3,615	4,021	5,631	4,425	5,988
Non-current liabilities	9,911	8,656	8,745	10,982	15,616
Bonds with subscription rights to shares	5,000	2,215	60	—	—
Long-term loans payable	1,041	1,041	2,217	3,935	8,663
Lease obligations	2,042	2,889	3,301	3,573	3,169
Provision for retirement benefits	1,324	—	—	—	—
Net defined benefit liability	—	2,159	2,634	2,212	2,345
Other	502	351	531	1,262	1,438
Total liabilities	37,316	40,002	42,016	44,732	50,063
Shareholders' equity	39,247	45,181	49,726	51,468	52,747
Capital stock	6,331	7,361	8,438	8,468	8,468
Capital surplus	5,799	6,819	7,897	7,666	7,775
Retained earnings	30,577	33,557	35,946	37,892	39,162
Treasury shares	(3,460)	(2,556)	(2,556)	(2,559)	(2,659)
Accumulated other comprehensive income	821	1,390	3,148	(342)	209
Valuation difference on available-for-sale securities	0	38	2	1	1
Foreign currency translation adjustment	820	1,902	4,235	310	854
Remeasurements of defined benefit plans	—	(550)	(1,089)	(654)	(645)
Subscription rights to shares	—	25	62	100	99
Non-controlling interests	136	136	220	928	1,160
Total net assets	40,205	46,734	53,158	52,155	54,217
Total liabilities and net assets	77,521	86,737	95,174	96,887	104,280

Consolidated statements of comprehensive income

	(Millions of JPY)				
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Net sales	87,256	96,773	99,831	105,504	106,302
Cost of sales	50,845	55,593	57,122	60,562	61,279
Gross profit	36,410	41,180	42,708	44,942	45,022
Selling, general and administrative expenses	30,958	34,421	35,264	38,487	38,917
Operating income	5,452	6,758	7,444	6,455	6,104
Non-operating income	311	679	567	488	516
Interest income	53	63	74	118	135
Dividend income	0	7	7	14	12
Purchase discounts	10	20	22	28	21
Rent income	146	158	118	154	143
Foreign exchange gains	—	183	76	—	—
Other	100	246	267	170	202
Non-operating expenses	334	353	527	824	1,194
Interest expenses	112	136	209	201	129
Sales discounts	31	49	70	65	59
Foreign exchange losses	19	—	—	350	108
Provision of allowance for doubtful accounts	—	—	—	—	304
Share of loss of entities accounted for using equity method	—	—	—	—	303
Other	170	168	247	206	289
Ordinary income	5,429	7,084	7,484	6,119	5,426
Extraordinary income	6	51	746	21	613
Gains on sales of non-current assets	6	51	730	21	14
Gains on sales of investment securities	0	—	—	—	—
Gains on reversal of subscription rights to shares	—	—	15	—	—
Gains on step acquisitions	—	—	—	—	598
Extraordinary losses	454	126	459	254	605
Loss on sales of non-current assets	3	29	9	9	7
Loss on retirement of non-current assets	78	68	6	125	39
Impairment loss	—	—	443	—	557
Restructuring loss	233	—	—	106	—
Loss on step acquisitions	138	28	—	—	—
Loss on prior period adjustment	—	—	—	12	—
Profit before income taxes	4,982	7,008	7,770	5,887	5,434
Income taxes – current	884	1,428	2,439	1,701	2,468
Income taxes for prior periods	—	—	204	—	—
Income taxes – deferred	1,364	1,276	1,335	432	(298)
Total income tax	2,248	2,704	3,980	2,134	2,170
Profit	2,733	4,304	3,790	3,752	3,263
Profit attributable to non-controlling interests	6	8	27	65	42
Profit attributable to owners of parent	2,726	4,295	3,763	3,687	3,221

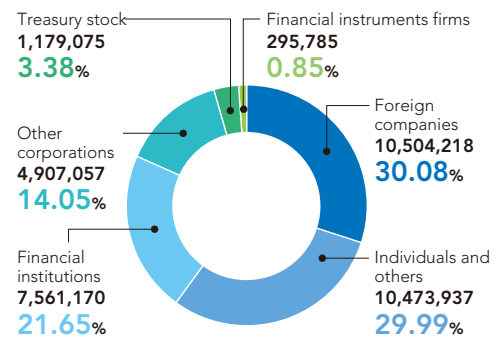
Consolidated statements of cash flows

	(Millions of JPY)				
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Net cash provided by operating activities	3,793	10,589	9,205	6,091	10,769
Net cash provided by (used in) investing activities	(984)	(4,776)	(6,221)	(9,596)	(8,716)
Net cash provided by (used in) financing activities	(2,839)	(1,511)	(3,062)	3,254	(1,343)
Effect of exchange rate change on cash and cash equivalents	644	470	459	(682)	(164)
Net increase (decrease) in cash and cash equivalents	614	4,771	381	(933)	545
Cash and cash equivalents at beginning of period	11,377	11,992	16,763	17,145	16,212
Cash and cash equivalents at end of period	11,992	16,763	17,145	16,212	16,757

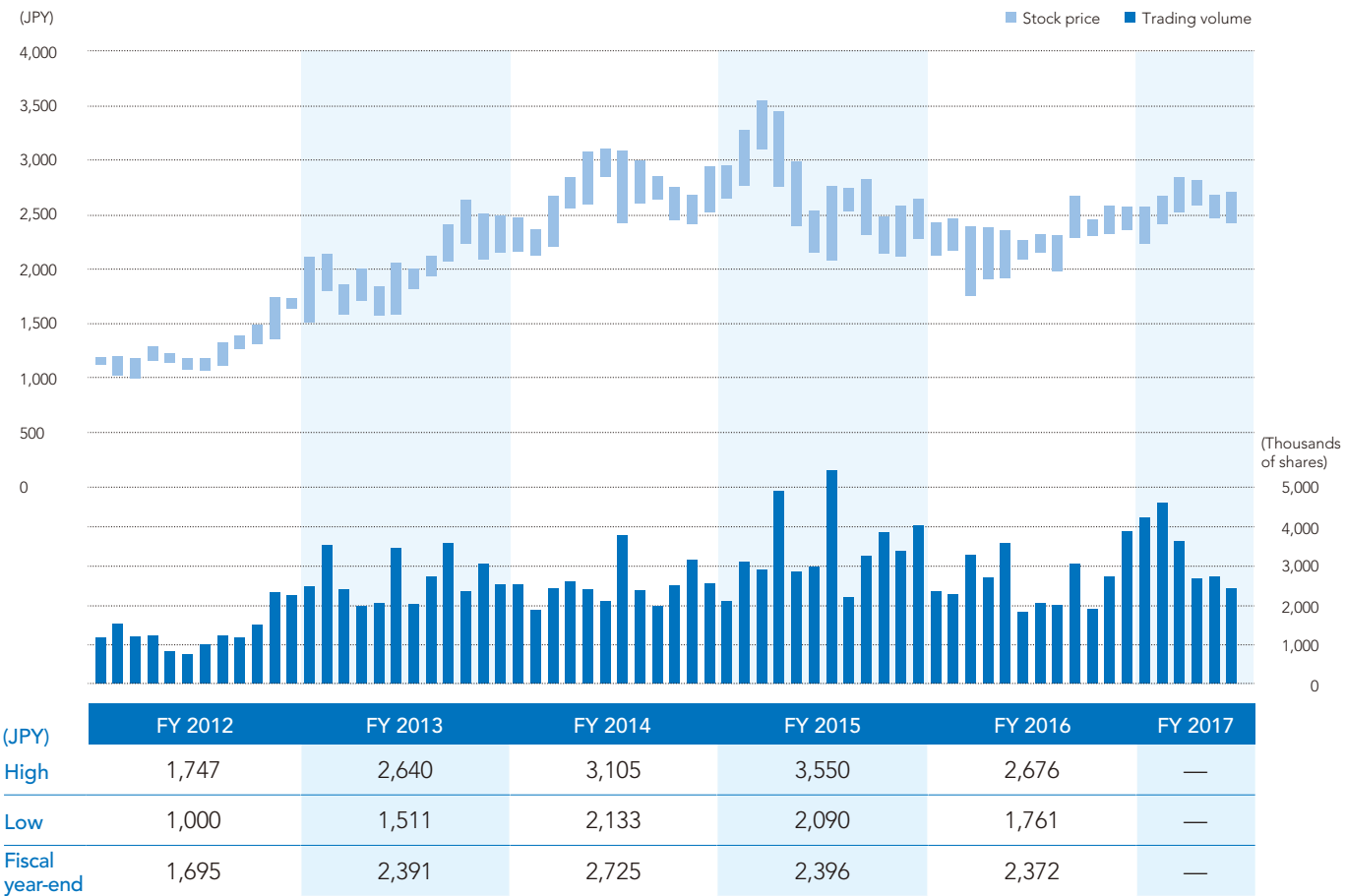
General information

Number of shares authorized	80,000,000
Number of shares issued	34,921,242
Number of shareholders	8,067
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

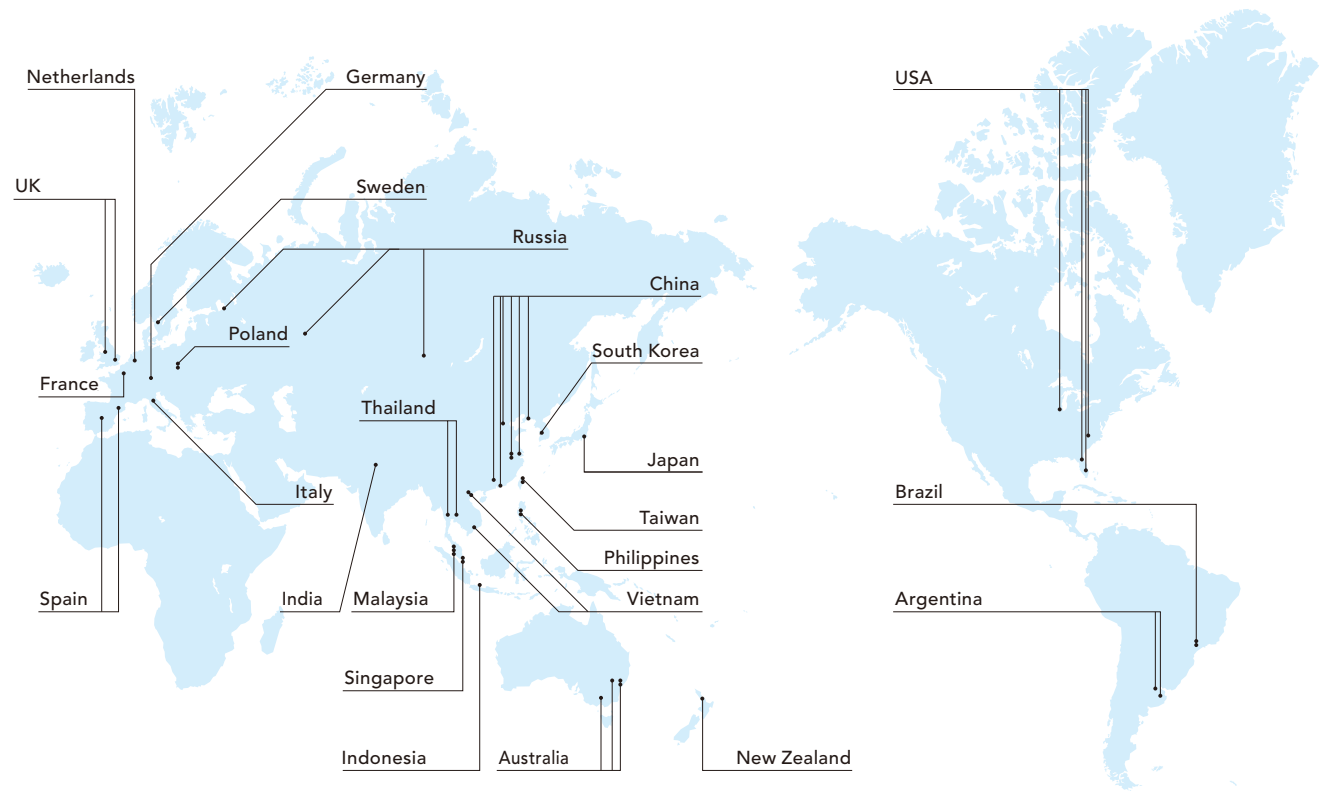


Major shareholders

Name	Shares owned	% of shares outstanding
Japan Trustee Service Bank, Ltd. (Trust account)	4,286,300	12.27
Sato Yo International Scholarship Foundation (Total)	3,786,200	10.84
The Master Trust Bank of Japan, Ltd. (Trust account)	1,609,600	4.60
SATO Employees' Stockholding	1,275,364	3.65
CBNY-Government of Norway	1,262,329	3.61
SATO Holdings Corporation	1,179,075	3.37
Goldman, Sachs & Co. Reg	1,052,700	3.01
Mieko Yokoi	905,145	2.59
Shizue Sato	897,470	2.56
Arena Co.	854,460	2.44

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 Ryutaro Kotaki, Executive Vice President and COO
Paid-in capital	¥8.4 billion
Employees	5,012
Consolidated sales	¥106.3 billion

Global Network
 (As of September 1, 2017)



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