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

November 2, 2017

SATO HOLDINGS CORPORATION

Company code number:	6287 (URL http://www.sato.co.jp)
Shares traded on:	TSE1
Executive position of legal representative:	Kazuo Matsuyama, President and CEO
Please address all communications to:	Yoichi Abe, Chief Financial Officer (CFO), Executive Officer Phone: 03-5745-3414

Scheduled submission date for quarterly securities report: November 10, 2017
Date of commencement of dividend payments: December 8, 2017
Supplementary explanatory materials for quarterly results: Available
Holding of meeting to explain quarterly results (for analysts and institutional investors): Yes

(millions of yen, with fractional amounts discarded)

1. Consolidated operating results for the first six months of the fiscal year ending March 31, 2018 (from April 1, 2017 to September 30, 2017)

(1) Consolidated financial results (cumulative)

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

	Net sales		Operating profit		Ordinary profit	
Six months ended	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
September 30, 2017	54,823	7.3	2,556	(3.6)	2,369	(0.4)
September 30, 2016	51,083	(1.5)	2,652	25.5	2,379	15.9

(Note) Comprehensive income: Six months ended September 30, 2017: ¥3,374 million (-%)
Six months ended September 30, 2016: ¥(1,619) million (-%)

	Profit attributable to owners of parent		Basic earnings per share	Diluted earnings per share
Six months ended	(Millions of yen)	%	(Yen)	(Yen)
September 30, 2017	2,413	60.1	71.98	71.89
September 30, 2016	1,507	33.1	44.96	44.90

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	(Millions of yen)	(Millions of yen)	%	(Yen)
September 30, 2017	106,501	56,882	52.0	1,652.99
March 31, 2017	104,280	54,217	50.8	1,579.53

(N.B.) Total equity:

As of September 30, 2017: ¥55,419 million As of March 31, 2017: ¥52,957 million

2. Dividends

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

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

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

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Yen)
Annual	113,500	6.8	6,000	(1.7)	5,800	6.9	4,500	39.7	134.22

(Note) Revisions of consolidated forecasts most recently announced: Yes

For details, please refer to the section "(3) Explanation of consolidated forecasts and other projections" of "1. Qualitative Information Regarding Settlement of Accounts for the First Six Months" on page 5 of the attached materials.

*** Notes**

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

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

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

1) Changes in accounting policies due to revisions to accounting standards: None

2) Changes in accounting policies due to other reasons: Yes

3) Changes in accounting estimates: Yes

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

For details, please refer to "Changes in accounting policies" under Section (4) of "2. Consolidated Financial Statements and Significant Notes Thereto" on page 11 of the attached materials.

(4) Number of issued shares (common shares)

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

As of September 30, 2017:	34,921,242 shares
As of March 31, 2017:	34,921,242 shares

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

As of September 30, 2017:	1,394,341 shares
As of March 31, 2017:	1,394,065 shares

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

Six months ended September 30, 2017:	33,527,012 shares
Six months ended September 30, 2016:	33,525,994 shares

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

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

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

Attached Materials

Index

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

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

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

With various efforts made in the first six months, our core auto-identification solutions business, for which we aim to achieve record profits this fiscal year, posted sales and profits better than expected and previous year’s levels, making a strong showing in Japan particularly. For our materials business, R&D activities at the newly consolidated DataLase Ltd. have progressed largely as planned.

As a result, the SATO Group recorded an increase in net sales, up 7.3% from the same period of the previous fiscal year to ¥54,823 million, and a decrease in operating profit, down 3.6% to ¥2,556 million. Ordinary profit decreased by 0.4% to ¥2,369 million and profit attributable to owners of parent increased by 60.1% to ¥2,413 million.

By segment, the SATO Group reported the following.

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

<Auto-Identification Solutions Business (Japan)>

In Japan, the auto-identification solutions business increased revenues in all markets amid robust demand primarily from the manufacturing and e-commerce sectors, leading net sales to reach record highs for two quarters consecutive so that both sales and profits finished better than expected and previous year's levels at the end of the first six months.

Given the manpower shortages and aging workforce trends in Japan, many companies face the common challenge of having to optimize their business operations through increasing labor productivity. This creates rising demand for automation and labor saving, bringing about a marked increase in business for solutions using RFID and collaborative robots.

At SATO, we are committed to shifting our business model to become a solutions provider focused on increasing customer value, and have achieved a large increase in sales volume for our strategic CLNX printer series, as well as an increase in business for total solutions combining matching maintenance services, supply products, and software, resulting in higher profitability. Going forward, we aim to further strengthen our ability to propose solutions for increasingly sophisticated challenges at different customer sites and grow our business stably.

Under these circumstances, net sales increased 6.2% to ¥34,058 million, and operating profit rose 40.6% to ¥2,208 million, compared to the same period of the previous fiscal year.

<Auto-Identification Solutions Business (Overseas)>

Overseas, the auto-identification solutions business showed a sustained improvement trend this quarter to again post higher sales and profits from the previous quarter. There was, however, an overall decline in profits for our companies specializing in primary labels as the improved revenues/earnings at Brazil's Prakolar Rotulos Auto-Advesivos S.A. from increased sales of high value-add labels was unable to offset the large decrease in operating profit at Russia's Okil-Holding, JSC caused by a drop in its gross profit margin from foreign currency effects and increased investments for ramping up production capacity. As for our base business at other overseas companies, although Europe suffered reduced profitability due to increased costs (resulting from foreign currency effects and new hiring for boosting sales capabilities) and a weaker product mix in large-scale deals, other regions delivered a solid performance to produce an overall increase in both sales and profits.

Under these circumstances, net sales rose 8.7% to ¥20,604 million (an increase of 1.1%, however, excluding foreign currency effects) and operating profit fell 1.1% to ¥1,099 million, compared to the same period of the previous fiscal year.

<Materials Business>

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

Under these circumstances, net sales rose 227.7% to ¥160 million (free from foreign currency effects), and an operating loss of ¥745 million was incurred, compared with an operating loss of ¥104 million for the same period of the previous fiscal year.

(2) Explanation of financial position

Total assets at the end of the second quarter were ¥106,501 million, an increase of ¥2,221 million compared to the end of the previous fiscal year. This was primarily the result of an increase in property, plant and equipment.

Net assets were ¥56,882 million, a ¥2,665 million increase from the end of the previous fiscal year, mainly due to the recording of profit attributable to owners of parent and an increase in foreign currency translation adjustment, notwithstanding the payment of cash dividends.

Cash flows

At the end of the second quarter, cash and cash equivalents (referred to below as "cash") stood at ¥16,112 million, a decrease of ¥644 million compared to the end of the previous fiscal year.

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥845 million, a decrease of 82.3% compared to the same period of the previous fiscal year.

This resulted primarily from cash inflows including ¥4,014 million of profit before income taxes and ¥2,097 million for depreciation, and cash outflows including a ¥2,564 million gain on sales of non-current assets, a ¥1,558 million decrease in notes and accounts payable - trade, and ¥1,582 million of income taxes paid.

Cash flows from investing activities

Net cash provided by investing activities amounted to ¥233 million.

This resulted primarily from ¥3,915 million proceeds from sales of property, plant and equipment and intangible assets, notwithstanding expenditures of ¥3,196 million for the purchase of property, plant and equipment and ¥639 million for the purchase of intangible assets.

Cash flows from financing activities

Net cash used in financing activities was ¥2,075 million, a decrease of 8.2% compared to the same period of the previous fiscal year.

This resulted primarily from a ¥1,161 million net decrease in short-term loans payable and ¥1,010 million of cash dividends paid.

(3) Explanation of consolidated forecasts and other projections

Considering the on-track progress of business and our recording of gain on sales of non-current assets from the transfer of owned assets during the first six months, we have revised our consolidated forecasts for the entire fiscal year as follows.

Consolidated forecasts for the fiscal year ending March 31, 2018

Net sales	¥113,500 million	(no change)
Operating profit	¥6,000 million	(no change)
Ordinary profit	¥5,800 million	(previous forecast ¥5,900 million)
Profit attributable to owners of parent	¥4,500 million	(previous forecast ¥3,600 million)

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

Forward-looking statements, including the consolidated forecasts stated in these materials, are based on information currently available to the Company and certain assumptions deemed reasonable. Results may differ materially from the consolidated forecasts due to various factors.

2. Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated balance sheets

Unit: Millions of yen

	March 31, 2017	September 30, 2017
Assets		
Current assets		
Cash and deposits	17,139	16,307
Notes and accounts receivable - trade	23,215	23,979
Securities	236	235
Merchandise and finished goods	7,585	8,052
Work in process	607	604
Raw materials and supplies	2,798	3,095
Other	4,156	5,030
Allowance for doubtful accounts	(168)	(253)
Total current assets	55,571	57,054
Non-current assets		
Property, plant and equipment		
Machinery, equipment and vehicles, net	10,496	11,108
Land	7,066	7,351
Other, net	9,788	11,127
Total property, plant and equipment	27,351	29,587
Intangible assets		
Goodwill	10,942	10,402
Other	5,664	5,478
Total intangible assets	16,607	15,880
Investments and other assets	4,750	3,979
Total non-current assets	48,709	49,447
Total assets	104,280	106,501
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,702	7,016
Electronically recorded obligations - operating	11,668	10,884
Short-term loans payable	4,338	3,116
Accounts payable - other	1,876	2,718
Income taxes payable	1,714	1,862
Provision	471	596
Other	6,674	7,076
Total current liabilities	34,446	33,272
Non-current liabilities		
Long-term loans payable	8,663	8,983
Net defined benefit liability	2,345	2,432
Other	4,607	4,931
Total non-current liabilities	15,616	16,347
Total liabilities	50,063	49,619

Unit: Millions of yen

	March 31, 2017	September 30, 2017
Net assets		
Shareholders' equity		
Capital stock	8,468	8,468
Capital surplus	7,775	7,712
Retained earnings	39,162	40,563
Treasury shares	(2,659)	(2,660)
Total shareholders' equity	52,747	54,084
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1	1
Foreign currency translation adjustment	854	1,980
Remeasurements of defined benefit plans	(645)	(647)
Total accumulated other comprehensive income	209	1,334
Subscription rights to shares	99	99
Non-controlling interests	1,160	1,363
Total net assets	54,217	56,882
Total liabilities and net assets	104,280	106,501

(2) Consolidated statements of (comprehensive) income

(Consolidated statements of income)

Unit: Millions of yen

	Six months ended September 30, 2016	Six months ended September 30, 2017
Net sales	51,083	54,823
Cost of sales	29,322	31,111
Gross profit	21,760	23,712
Selling, general and administrative expenses	19,108	21,156
Operating profit	2,652	2,556
Non-operating income		
Interest income	69	68
Dividend income	11	32
Rent income	70	77
Other	106	108
Total non-operating income	259	286
Non-operating expenses		
Interest expenses	63	64
Foreign exchange losses	255	99
Sales discounts	28	26
Compensation expenses	3	80
Provision of allowance for doubtful accounts	–	98
Share of loss of entities accounted for using equity method	113	0
Other	67	103
Total non-operating expenses	532	472
Ordinary profit	2,379	2,369
Extraordinary income		
Gain on sales of non-current assets	12	2,726
Total extraordinary income	12	2,726
Extraordinary losses		
Loss on retirement of non-current assets	4	111
Loss on sales of non-current assets	3	162
Impairment loss	–	457
Provision for loss on guarantees	–	350
Total extraordinary losses	7	1,081
Profit before income taxes	2,384	4,014
Income taxes - current	1,046	1,956
Income taxes - deferred	(213)	(212)
Total income taxes	833	1,744
Profit	1,551	2,270
Profit attributable to non-controlling interests	44	(142)
Profit attributable to owners of parent	1,507	2,413

(Consolidated statements of comprehensive income)

Unit: Millions of yen

	Six months ended September 30, 2016	Six months ended September 30, 2017
Profit	1,551	2,270
Other comprehensive income		
Valuation difference on available-for-sale securities	(0)	0
Foreign currency translation adjustment	(2,968)	1,105
Remeasurements of defined benefit plans, net of tax	147	(1)
Share of other comprehensive income of entities accounted for using equity method	(349)	(0)
Total other comprehensive income	(3,170)	1,104
Comprehensive income	(1,619)	3,374
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(1,636)	3,538
Comprehensive income attributable to non-controlling interests	17	(163)

(3) Consolidated statements of cash flows

Unit: Millions of yen

	Six months ended September 30, 2016	Six months ended September 30, 2017
Cash flows from operating activities		
Profit before income taxes	2,384	4,014
Depreciation	1,926	2,097
Amortization of goodwill	581	664
Impairment loss	–	457
Increase (decrease) in provision for loss on guarantees	–	350
Loss (gain) on sales of non-current assets	(9)	(2,564)
Loss on retirement of non-current assets	4	111
Increase (decrease) in provision	26	8
Increase (decrease) in allowance for doubtful accounts	(20)	90
Increase (decrease) in net defined benefit liability	(131)	82
Interest and dividend income	(81)	(100)
Interest expenses	63	64
Foreign exchange losses (gains)	482	(148)
Decrease (increase) in notes and accounts receivable - trade	807	(575)
Decrease (increase) in inventories	(749)	(657)
Increase (decrease) in notes and accounts payable - trade	2,226	(1,558)
Increase (decrease) in accounts payable - other	(2,126)	836
Other, net	169	(784)
Subtotal	5,554	2,389
Interest and dividend income received	81	100
Interest expenses paid	(58)	(63)
Income taxes paid	(887)	(1,582)
Income taxes refund	91	0
Net cash provided by (used in) operating activities	4,782	845
Cash flows from investing activities		
Payments into time deposits	(1,727)	(27)
Proceeds from withdrawal of time deposits	1,469	222
Purchase of property, plant and equipment	(2,580)	(3,196)
Proceeds from sales of property, plant and equipment and intangible assets	77	3,915
Purchase of intangible assets	(383)	(639)
Other, net	132	(42)
Net cash provided by (used in) investing activities	(3,012)	233
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(6,715)	(1,161)
Proceeds from long-term loans payable	5,847	329
Repayments of long-term loans payable	(115)	(115)
Proceeds from sales of treasury shares	500	–
Repayments of lease obligations	(332)	(424)
Cash dividends paid	(938)	(1,010)
Other, net	(505)	305
Net cash provided by (used in) financing activities	(2,261)	(2,075)
Effect of exchange rate change on cash and cash equivalents	(974)	352
Net increase (decrease) in cash and cash equivalents	(1,466)	(644)
Cash and cash equivalents at beginning of period	16,212	16,757
Cash and cash equivalents at end of period	14,746	16,112

(4) Notes to consolidated financial statements

(Notes related to going-concern assumption)

Not Applicable

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

Not Applicable

(Changes in accounting policies)

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

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

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

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

(Segment information)

I. Six months ended September 30, 2016 (from April 1, 2016 to September 30, 2016)

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

Unit: Millions of yen

	Auto-Identification Solutions Business (Japan)	Auto-Identification Solutions Business (Overseas)	Materials Business	Total
Net sales				
External customer sales	32,076	18,957	48	51,083
Intersegment sales and transfer	2,788	3,849	5	6,642
Total	34,865	22,806	53	57,725
Segment profit	1,570	1,112	(104)	2,577

2. Difference between the total amount of profit or loss for reportable segments and the amount recorded on the consolidated statements of income, and a major breakdown of the difference

(Matters related to difference adjustment)

Unit: Millions of yen

Profit	Amount
Reportable segments total	2,577
Intersegment eliminations	(4)
Amortization of goodwill	(12)
Adjustment of inventories	92
Operating profit on the consolidated statements of income	2,652

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

Not Applicable

II. Six months ended September 30, 2017 (from April 1, 2017 to September 30, 2017)

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

Unit: Millions of yen

	Auto-Identification Solutions Business (Japan)	Auto-Identification Solutions Business (Overseas)	Materials Business	Total
Net sales				
External customer sales	34,058	20,604	160	54,823
Intersegment sales and transfer	3,045	4,286	33	7,365
Total	37,104	24,891	193	62,189
Segment profit	2,208	1,099	(745)	2,562

2. Difference between the total amount of profit or loss for reportable segments and the amount recorded on the consolidated statements of income, and a major breakdown of the difference

(Matters related to difference adjustment)

Unit: Millions of yen

Profit	Amount
Reportable segments total	2,562
Intersegment eliminations	(7)
Adjustment of inventories	1
Operating profit on the consolidated statements of income	2,556

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

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

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

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

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

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

   Accordingly, impairment loss of ¥411 million was recorded in the six months ended September 30, 2017.