Consolidated Financial Report
for the First Nine Months of the March 2018 Term

<Under Japanese GAAP>

February 9, 2018

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: February 14, 2018
Date of commencement of dividend payments: -
Supplementary explanatory materials for quarterly results: Available
Holding of meeting to explain quarterly results: None

(millions of yen, with fractional amounts discarded)

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

(1) Consolidated financial results (cumulative)

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

	Net sales		Operating profit		Ordinary profit	
Nine months ended	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
December 31, 2017	85,016	8.0	4,675	9.0	4,381	1.6
December 31, 2016	78,739	(0.0)	4,288	3.3	4,313	9.8

(Note) Comprehensive income: Nine months ended December 31, 2017: ¥4,873 million (35.9%)
Nine months ended December 31, 2016: ¥3,586 million (-%)

	Profit attributable to owners of parent		Basic earnings per share	Diluted earnings per share
Nine months ended	(Millions of yen)	%	(Yen)	(Yen)
December 31, 2017	3,565	30.8	106.36	106.22
December 31, 2016	2,725	23.7	81.29	81.18

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	(Millions of yen)	(Millions of yen)	%	(Yen)
December 31, 2017	107,307	57,300	52.0	1,665.10
March 31, 2017	104,280	54,217	50.8	1,579.53

(N.B.) Total equity:

As of December 31, 2017: ¥55,825 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	6,200	1.6	5,900	8.7	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 Nine Months" on page 5 of the attached materials.

* Notes

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

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

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

1) Changes in accounting policies due to revisions to accounting standards: 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 December 31, 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 December 31, 2017:	1,394,683 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 nine months):

Nine months ended December 31, 2017:	33,526,912 shares
Nine months ended December 31, 2016:	33,526,457 shares

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

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

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

Attached Materials

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

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

The SATO Group has launched a new five-year Medium-term Management Plan (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 nine 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, centering mainly on DataLase Ltd., R&D activities have progressed largely as planned.

As a result, the SATO Group recorded an increase in net sales, up 8.0% from the same period of the previous fiscal year to ¥85,016 million, and an increase in operating profit, up 9.0% to ¥4,675 million. Ordinary profit increased by 1.6% to ¥4,381 million and profit attributable to owners of parent increased by 30.8% to ¥3,565 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 generated a year-on-year increase in revenues across all markets on account of robust demand primarily from the manufacturing and e-commerce sectors. Cumulative net sales at the end of the first nine months reached a record high, leading both sales and profits to finish better than expected and previous year's levels.

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 the same time, we are also seeing rising needs for accuracy assurance and traceability in manufacturing, healthcare, and food markets for example.

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 while entering into collaborations with partners so as to grow our business stably.

Under these circumstances, net sales increased 6.4% to ¥52,971 million, and operating profit rose 36.0% to ¥4,059 million, compared to the same period of the previous fiscal year.

<Auto-Identification Solutions Business (Overseas)>

Overseas, the auto-identification solutions business posted higher sales and profits for the first nine months of the fiscal year amid moderate recovery in the global economy as a whole. 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 up-front investments for improving productivity and creating new business opportunities. Our base business at other overseas companies, on the other hand, is generally going strong, with progress being made in selling solutions to improve customers' field operations based on our strategic CLNX printer series. Region wise, 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, the Americas and Asia and Oceania regions delivered a strong performance to produce an overall increase in both sales and profits.

Under these circumstances, net sales rose 10.1% to ¥31,829 million (an increase of 2.6%, however, excluding foreign currency effects) and operating profit rose 27.1% to ¥1,763 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. Besides booking new sales revenue from existing DataLase customers in this first nine months, we also recorded R&D costs as up-front investment on the IDP technology and amortization of goodwill resulting from such acquisition, largely as planned.
For DataLase, we are continuing discussions with multiple partners/customers for joint technology developments and full-scale IDP rollout, and have started working together with Palo Alto Research Center (PARC; Xerox's wholly owned subsidiary located in California, U.S.) in November 2017 to develop a multi-color platform for the IDP technology. We have also started specific initiatives — 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 178.9% to ¥215 million (free from foreign currency effects), and an operating loss of ¥1,083 million was incurred, compared with an operating loss of ¥158 million for the same period of the previous fiscal year.

(2) Explanation of financial position

Total assets at the end of the third quarter were ¥107,307 million, an increase of ¥3,027 million compared to the end of the previous fiscal year. This was primarily the result of increases in notes and accounts receivable - trade, and property, plant and equipment.

Net assets were ¥57,300 million, a ¥3,083 million increase from the end of the previous fiscal year, mainly due to an increase in foreign currency translation adjustment, notwithstanding the payment of cash dividends.

Cash flows

At the end of the third quarter, cash and cash equivalents (referred to below as "cash") stood at ¥14,354 million, a decrease of ¥2,402 million compared to the end of the previous fiscal year.

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥2,247 million, a decrease of 67.4% compared to the same period of the previous fiscal year.

This resulted primarily from cash inflows including ¥6,011 million of profit before income taxes and ¥3,178 million for depreciation, and cash outflows including a ¥2,595 million gain on sales of non-current assets, a ¥2,544 million increase in notes and accounts receivable - trade, and ¥2,708 million of income taxes paid.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥1,476 million, a decrease of 60.3%, compared to the same period of the previous fiscal year.

This resulted primarily from cash inflows including ¥3,854 million proceeds from sales of property, plant and equipment and intangible assets, and cash outflows including an expenditure of ¥4,463 million for the purchase of property, plant and equipment.

Cash flows from financing activities

Net cash used in financing activities was ¥3,619 million, an increase of 690.9% compared to the same period of the previous fiscal year.

This resulted primarily from cash outflows including a ¥1,515 million net decrease in short-term loans payable and ¥2,083 million of cash dividends paid.

(3) Explanation of consolidated forecasts and other projections

Considering the better-than-expected progress of business during the first nine 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	¥6,200 million	(previous forecast ¥6,000 million)
Ordinary profit	¥5,900 million	(previous forecast ¥5,800 million)
Profit attributable to owners of parent	¥4,500 million	(no change)

The foreign exchange rates assumed in the above forecast are US$1 = ¥111 and €1 = ¥130.

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	December 31, 2017
Assets		
Current assets		
Cash and deposits	17,139	14,578
Notes and accounts receivable - trade	23,215	25,941
Securities	236	218
Merchandise and finished goods	7,585	8,091
Work in process	607	494
Raw materials and supplies	2,798	3,313
Other	4,156	4,674
Allowance for doubtful accounts	(168)	(257)
Total current assets	55,571	57,054
Non-current assets		
Property, plant and equipment		
Machinery, equipment and vehicles, net	10,496	11,091
Land	7,066	7,633
Other, net	9,788	12,257
Total property, plant and equipment	27,351	30,982
Intangible assets		
Goodwill	10,942	10,095
Other	5,664	5,259
Total intangible assets	16,607	15,355
Investments and other assets	4,750	3,916
Total non-current assets	48,709	50,253
Total assets	104,280	107,307
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,702	7,163
Electronically recorded obligations - operating	11,668	11,754
Short-term loans payable	4,338	2,791
Accounts payable - other	1,876	2,714
Income taxes payable	1,714	1,795
Provision	471	578
Other	6,674	7,110
Total current liabilities	34,446	33,908
Non-current liabilities		
Long-term loans payable	8,663	8,899
Net defined benefit liability	2,345	2,407
Other	4,607	4,791
Total non-current liabilities	15,616	16,099
Total liabilities	50,063	50,007

Unit: Millions of yen

	March 31, 2017	December 31, 2017
Net assets		
Shareholders' equity		
Capital stock	8,468	8,468
Capital surplus	7,775	7,712
Retained earnings	39,162	40,636
Treasury shares	(2,659)	(2,661)
Total shareholders' equity	52,747	54,156
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1	1
Foreign currency translation adjustment	854	2,298
Remeasurements of defined benefit plans	(645)	(630)
Total accumulated other comprehensive income	209	1,669
Subscription rights to shares	99	99
Non-controlling interests	1,160	1,375
Total net assets	54,217	57,300
Total liabilities and net assets	104,280	107,307

(2) Consolidated statements of (comprehensive) income

(Consolidated statements of income)

Unit: Millions of yen

	Nine months ended December 31, 2016	Nine months ended December 31, 2017
Net sales	78,739	85,016
Cost of sales	45,573	48,626
Gross profit	33,166	36,389
Selling, general and administrative expenses	28,877	31,714
Operating profit	4,288	4,675
Non-operating income		
Interest income	104	98
Dividend income	12	32
Foreign exchange gains	27	–
Rent income	107	78
Other	176	157
Total non-operating income	427	366
Non-operating expenses		
Interest expenses	92	101
Foreign exchange losses	–	170
Sales discounts	43	44
Compensation expenses	3	81
Provision of allowance for doubtful accounts	–	89
Share of loss of entities accounted for using equity method	161	3
Other	102	170
Total non-operating expenses	402	661
Ordinary profit	4,313	4,381
Extraordinary income		
Gain on sales of non-current assets	14	2,759
Total extraordinary income	14	2,759
Extraordinary losses		
Loss on retirement of non-current assets	6	115
Loss on sales of non-current assets	3	164
Impairment loss	–	499
Provision for loss on guarantees	–	350
Total extraordinary losses	9	1,129
Profit before income taxes	4,317	6,011
Income taxes - current	1,721	3,022
Income taxes - deferred	(175)	(431)
Total income taxes	1,545	2,591
Profit	2,772	3,420
Profit attributable to non-controlling interests	47	(145)
Profit attributable to owners of parent	2,725	3,565

(Consolidated statements of comprehensive income)

Unit: Millions of yen

	Nine months ended December 31, 2016	Nine months ended December 31, 2017
Profit	2,772	3,420
Other comprehensive income		
Valuation difference on available-for-sale securities	0	0
Foreign currency translation adjustment	908	1,437
Remeasurements of defined benefit plans, net of tax	123	14
Share of other comprehensive income of entities accounted for using equity method	(218)	(0)
Total other comprehensive income	813	1,452
Comprehensive income	3,586	4,873
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,381	5,024
Comprehensive income attributable to non-controlling interests	204	(151)

(3) Consolidated statements of cash flows

Unit: Millions of yen

	Nine months ended December 31, 2016	Nine months ended December 31, 2017
Cash flows from operating activities		
Profit before income taxes	4,317	6,011
Depreciation	2,934	3,178
Amortization of goodwill	881	967
Impairment loss	–	499
Increase (decrease) in provision for loss on guarantees	–	350
Loss (gain) on sales of non-current assets	(10)	(2,595)
Loss on retirement of non-current assets	6	115
Increase (decrease) in provision	(26)	(64)
Increase (decrease) in allowance for doubtful accounts	9	137
Increase (decrease) in net defined benefit liability	(80)	68
Interest and dividend income	(116)	(130)
Interest expenses	92	101
Foreign exchange losses (gains)	74	(219)
Decrease (increase) in notes and accounts receivable - trade	(1,047)	(2,544)
Decrease (increase) in inventories	(449)	(729)
Increase (decrease) in notes and accounts payable - trade	11,130	(531)
Increase (decrease) in accounts payable - other	(9,885)	487
Other, net	275	(177)
Subtotal	8,105	4,923
Interest and dividend income received	116	130
Interest expenses paid	(92)	(99)
Income taxes paid	(1,334)	(2,708)
Income taxes refund	91	0
Net cash provided by (used in) operating activities	6,887	2,247
Cash flows from investing activities		
Payments into time deposits	(2,590)	(225)
Proceeds from withdrawal of time deposits	2,332	427
Purchase of property, plant and equipment	(3,216)	(4,463)
Purchase of intangible assets	(507)	(984)
Proceeds from sales of property, plant and equipment and intangible assets	34	3,854
Other, net	227	(85)
Net cash provided by (used in) investing activities	(3,721)	(1,476)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(3,699)	(1,515)
Proceeds from long-term loans payable	5,899	333
Repayments of long-term loans payable	(190)	(123)
Proceeds from sales of treasury shares	500	–
Repayments of lease obligations	(518)	(534)
Cash dividends paid	(1,943)	(2,083)
Other, net	(506)	304
Net cash provided by (used in) financing activities	(457)	(3,619)
Effect of exchange rate change on cash and cash equivalents	(33)	446
Net increase (decrease) in cash and cash equivalents	2,674	(2,402)
Cash and cash equivalents at beginning of period	16,212	16,757
Cash and cash equivalents at end of period	18,886	14,354

(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 nine months was minimal.

(Segment information)

I. Nine months ended December 31, 2016 (from April 1, 2016 to December 31, 2016)

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

Unit: Millions of yen

	Auto-Identification Solutions Business (Japan)	Auto-Identification Solutions Business (Overseas)	Materials Business	Total
Net sales				
External customer sales	49,765	28,896	77	78,739
Intersegment sales and transfer	4,103	5,692	5	9,801
Total	53,869	34,589	83	88,541
Segment profit (loss)	2,985	1,386	(158)	4,214

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

(Matters related to difference adjustment)

Unit: Millions of yen

Profit	Amount
Reportable segments total	4,214
Intersegment eliminations	(8)
Amortization of goodwill	(12)
Adjustment of inventories	95
Operating profit on the consolidated statements of income	4,288

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

Not Applicable

II. Nine months ended December 31, 2017 (from April 1, 2017 to December 31, 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	52,971	31,829	215	85,016
Intersegment sales and transfer	4,616	6,475	50	11,142
Total	57,588	38,304	265	96,158
Segment profit (loss)	4,059	1,763	(1,083)	4,739

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

(Matters related to difference adjustment)

Unit: Millions of yen

Profit	Amount
Reportable segments total	4,739
Intersegment eliminations	(11)
Adjustment of inventories	(52)
Operating profit on the consolidated statements of income	4,675

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 nine months ended December 31, 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 ¥84 million was recorded in the nine months ended December 31, 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 ¥414 million was recorded in the nine months ended December 31, 2017.