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SATO HOLDINGS CORPORATION

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Securities code: 6287.T
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Corporate governance at SATO HOLDINGS CORPORATION (the "Company") is as described below.

I. Basic views on corporate governance, capital structure, corporate attributes and other basic information

1. Basic views

We aim to realize sustainable growth and higher corporate value on a medium- to long-term basis under our vision of being "the customer's most trusted partner for mutual growth, and always essential in an ever-changing world." We believe that building and continuously strengthening corporate governance to support these aims is critical to sound, transparent and efficient management.

Besides enhancing audit and control functions through our Audit & Supervisory Board, we also appoint independent external directors of diverse backgrounds to constitute the majority of our board of directors for strong and transparent management oversight, in our efforts to lay the necessary groundwork for effective governance to protect shareholders and other stakeholders.

[Parts of the Corporate Governance Code that we substitute with our own, and our reasons for these substitutions]

[Supplementary Principle 4.8.2 Appointing a lead independent external director]

Setting hierarchy among external directors may increase their reliance on the leader, hindering them from forming and expressing their own views independently. As external directors have extensive experience and substantial expertise in their own fields that they could draw on to provide valuable input without conforming to others, the Company does not appoint a lead independent external director.

[Supplementary Principle 4.11.2 Directors and Audit & Supervisory Board members serving concurrent posts]

The Company values the useful and sound advice that directors and Audit & Supervisory Board members provide at board meetings based on their professional knowledge and wealth of experience, and believes that this will not be compromised because of their concurrent commitments at other companies. We shall opt against the reappointment of external directors if they are deemed unable to fulfill their roles and responsibilities regardless of their other concurrent postings. Details of concurrent positions held by external directors are disclosed in our Notice of Annual General Meeting and securities report.

[Our stand on Corporate Governance Code principles that require disclosure]

[Principle 1.4 Cross-shareholdings]

When the Company gains ownership of shares of other listed companies or maintains existing ownership of shares, we review such shareholdings from a medium- to long-term perspective, taking into account prospects for strengthening and maintaining business transactions to increase corporate value, and potential returns and risks. The Company shall sell shares under ownership when they are deemed unlikely to bring benefits, considering impacts on the stock market that may result.

The Company has established a stipulation that requires any shareholdings in another listed entity exceeding ¥500 million in nominal value be approved by the board of directors. Currently, the Company does not own any such shareholdings.

In exercising voting rights of these shares, the Company considers the management policy, business circumstances, and proposed agendas of the investee company in a comprehensive manner, making decisions based on whether or not the corporate value of the investee company will subsequently grow over the medium- to long-term.

[Principle 1.7 Related party transactions]

When the Company engages in business transactions with directors, it must obtain prior approval from the board of directors according to board regulations, and report outcomes in detail to the board upon completion in order to avoid conflict with the common interests of the Company and its shareholders. Independent officers on the board of directors shall verify the rationality and appropriateness of such transactions.

In order to prevent actions that are detrimental to the interests of shareholders, representative directors and executive directors shall report or explain to the board meeting the latest situation on business execution and other necessary information at least once every three months according to board regulations.

[Principle 2.3 Sustainability issues, including social and environmental matters]

We believe that sustainability is inseparable from our core business in auto-ID solutions, as our corporate 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.” Sustainability, for us, consists of activities that concern CSR, meet ESG standards and support SDGs, which we will drive as we contribute to society through our business.

To that end, we have set forth our basic policy for sustainability in 2018 and established a Sustainability Promotion Committee in October 2019. This committee, which has come under the Senior Executive Management Meeting starting April 2022, leads our efforts to contribute to society with our business offerings (for supply chain optimization, etc.), support the circular economy and decarbonization in our operations, protect human capital and preserve natural capital. In addressing these sustainability challenges, we discuss matters with external experts to seek their advice as necessary and check on such progress regularly at board of directors meetings via reports from the Senior Executive Management Meeting.

Details can be found on our website.

(Sustainability policy) www.sato-global.com/sustainability/policy/

(Materiality assessment) www.sato-global.com/sustainability/materiality/

[Supplementary Principle 2.4.1 Ensuring diversity in core human resources]

In April 2021, the Company established a Nomination Advisory Committee, appointing an external director to its chair. This committee looks into increasing diversity as a top priority when discussing appointment of core managerial personnel and other nomination matters. Currently, we have three women among our external directors and Audit & Supervisory Board members, and three female executive officers (including two new appointments in April 2022) on the management team, of whom one is non-Japanese. 35 percent of our workforce is employed in Japan, and the remaining 65 percent in countries around the world. In Europe and the Americas, our key group companies are run by managers who were recruited locally. In Japan, 7.7 percent of our managers are women, 1.8 percent are non-Japanese and 60.2 percent are mid-career hires. While planning to appoint more women to managerial positions, we also recognize the importance of training core human resources to ensure we have diverse personnel to support our board and senior management. The HR Development Committee we newly established under the Nomination Advisory Committee shall work on driving the necessary actions, setting voluntary goals to be disclosed by the end of FY 2022.

To us, ensuring diversity ultimately means we can tap into the different competencies of diverse human resources to lead activities for value creation and build a more vibrant and competitive company. This belief in the importance of diverse perspectives and values is the same in essence as our corporate motto of Ceaseless Creativity. At SATO, we have Teiho, our very own system introduced in 1976 for employees to write short daily reports (within a set word count) about their ideas or suggestions to better the Company and submit them directly to top management. In FY 2022, we launched a new category of Teiho reports in Japan called Make-a-Ripple Teiho to let employees put forward ideas stemming from their expertise to their direct managers for the purpose of improving their own departments/teams. Managers would set up department/team meetings as necessary to promptly consider the ideas and decide on implementation. Through Make-a-Ripple Teiho, we hope to give employees a sense of accomplishment from seeing their ideas turn into reality and entrench daily activities for employee-led improvements/innovations to shape a proactive, self-determining corporate culture that thrives with diversity.

[Principle 2.6 Role as owner of corporate pension assets]

The Company operates a defined-contribution corporate pension scheme and does not have to hold any corporate pension reserves which can potentially impact our financial conditions.

[Principle 3.1 Full disclosure]

- (1) About (i) our management principles and business objectives/strategies:
We make this information available to the public via our website and integrated report.
(Values) www.sato-global.com/about/values/
(Medium-term management plan) www.sato-global.com/ir/policy/plan.html
- (2) About (ii) our basic views on corporate governance:
We make this information available to the public via our website, securities report and integrated report.
(Basic concept) www.sato-global.com/about/governance/governance.html
- (3) About (v) reasons for the individual appointments of directors and Audit & Supervisory Board members:
We provide the explanations in the reference documents for the general meeting of shareholders.

[Supplementary Principle 3.1.3 Sustainability initiatives]

- (1) Strengths underpinning business strategies
Our domain is in tagging, the act of physically attaching media to extract information such as ID and temperature status to things and people at worksites using barcodes, RFID, sensors and other technologies. Through tagging, we digitize and collect on-site data so that it can be fed to and processed by core IT systems for producing analyses and insights on which item is where in what quantity or condition within or across individual sites that constitute supply chains. This allows us to identify and solve operational bottlenecks for businesses and contribute to society.
Our current medium-term management plan (for fiscal years 2021 through 2023) articulates our focus on tagging solutions targeting individual worksites. We are also working to advance tagging, eyeing its long-term potential, to grow our solutions to cover entire supply chains and deliver greater value for society. By collaborating with customers and other market players, we believe we can expand our reach and provide better solutions toward realizing a more sustainable world.
Every industry and company has different supply chains and fields of operation. For example, automobile and chemical may both be in the manufacturing industry but they operate by different workflows in different environments, handling different things. Through our years of business working with and understanding each industry, we have honed our core competency we call genbaryoku to consistently provide optimal solutions to each worksite.
In addition, we have strengths in engineering and manufacturing to invent and produce label printers and labels/tags that are used in our solutions. We have also built up strong partner networks by collaborating with business partners who offer products, services and technologies different from ours. The nature of our tagging business creates interaction and touch points with diverse customers. And in delivering solutions that exceed their expectations, we transform these touch points into trust points. This strong trust is also what underpins our business strategies and drives our sustainable growth.
- (2) Investment in human capital
Our R&D, production and sales personnel practice genbaryoku to generate value for customers and society and win trust. Employees are, therefore, our most important strategic assets. To address the individual needs of diverse customers/industries and exceed their expectations in our value propositions, we must be diverse ourselves at the organizational level and bring out the best in each individual employee. We also focus efforts on helping employees outside of Japan practice genbaryoku increasingly and in the same way as those in Japan do.
Our corporate motto of Ceaseless Creativity and corporate values unite our diverse workforce and maximize our value creation. Under our motto, we put in place sets of beliefs and principles that empower employees to innovate and create new value ceaselessly. These beliefs and principles form our SATO Values which guide employees toward our mission to “create new value for our customers through products and services of superior quality, and to contribute towards a better and more sustainable world.”
We foster talent who can live up to our corporate motto. Our aim is that they become self-supportive and self-determining to think and act autonomously to constantly initiate changes on their own. In FY 2021, we established SATO Campus, a platform that helps employees realize their career goals in this direction. We have also conducted employee engagement surveys since FY 2020, and are using the results toward spurring employees’ individual professional growth and work satisfaction. We will keep monitoring and initiating improvements to create a vibrant and more engaging workplace for everyone.

(3) Investment in intellectual property

Patents, designs, trademarks, technical know-how and other intellectual assets created in the course of developing our solutions are important business resources. Through our Intellectual Property (IP) Department, which reports directly to the CEO, we develop intellectual assets that enhance legacy tagging solutions and support their growth, working with an IP medium-term plan that is in line with the Company's medium-term business objectives and strategies.

We also make active efforts to develop intellectual assets that support technological innovation for strategic investments geared toward the next stage of advanced tagging, which we envision for the long term. And by safeguarding and utilizing such assets that deliver new values for society and contribute to a more sustainable world, we aim to achieve long-term growth and greater corporate value for our business.

Pertaining to our innovation generation process, we started performing and providing IP landscape analyses while strategizing how to create intellectual assets for competitive differentiation and grow our IP portfolio both in and outside Japan.

We also established a basic policy, setting out our commitment to (i) creating and making use of IP, (ii) respecting the valid IP rights of third parties, and (iii) providing IP training and education to increase employee awareness. In recognition of our IP management, we were honored with the Commissioner of the Japan Patent Office Award in the 2019 Intellectual Property Achievement Awards, presented by Japan's Ministry of Economy, Trade and Industry and the Japan Patent Office.

(4) Addressing climate change

We recognize that climate change profoundly impacts our world and that it is critical for us to act on climate issues when managing our business. In 2021, we declared our support for the Task Force on Climate-related Financial Disclosures (TCFD) established by the Financial Stability Board and started applying TCFD recommendations to our climate actions.

Based on TCFD recommendations, we conducted a climate scenario analysis in FY 2021 to assess the impact of climate-related risks and opportunities and identify actions to manage these risks and opportunities. To better drive actions for addressing climate change and other sustainability priorities across the SATO Group, we strengthened governance by placing our Sustainability Promotion Committee under the direction of our Senior Executive Management Meeting and the oversight of our board of directors. We also included members from corporate planning and key business divisions into this committee to ensure we infuse sustainability into our business growth efforts.

We will continue to address climate change through our operations and help our customers and society in their climate contributions with our solutions.

Details can be found on our website.

(Our actions in response to TCFD recommendations) www.sato-global.com/sustainability/tcfid/

[Supplementary Principle 4.1.1 Scope of matters delegated to senior management]

For the board to oversee the decision-making of critical business matters and the execution of duties by each director/member of senior management, matters stipulated by laws/regulations and the Articles of Incorporation, and important matters concerning business strategies and management plans, are clearly specified as matters for discussion in the board for which board regulations apply. Authority over the execution of other business operations is delegated to executive officers and senior executives, according to the Company's rules of authorization and Senior Executive Management Meeting regulations.

To let the board focus more on deliberating important business matters and exercising oversight, we have delegated more decision-making authority to the executive team starting FY 2021. Roles and responsibilities of the Senior Executive Management Meeting and Executive Officers Meeting are also clearly defined to ensure we accelerate the making and execution of business decisions while enforcing strong risk management at the same time.

[Supplementary Principle 4.3.4 Establishment of risk management system and utilization of internal audit departments]

Starting FY 2021, we established a Business Review Committee under the Senior Executive Management Meeting. This new committee examines and analyzes risks the Company takes in conducting business (when making investments and loans, acquiring and disposing of stock and fixed assets, entering into business partnerships or important agreements, and selling or buying businesses) to improve the quality of deliberations for top-level decision-making.

Our Risk Management Committee, placed under the Senior Executive Management Meeting/Executive Officers Meeting, is responsible for developing and improving risk management systems across SATO Group companies in and outside Japan. It also works on determining preventive actions to minimize any resulting

damage and drawing up crisis countermeasures should such risks occur.

Our internal audit departments work closely with the Audit & Supervisory Board, reporting to it as necessary. They also share internal audit results with internal directors. When deemed necessary by internal directors or full-time Audit & Supervisory Board members, representatives from the audit departments shall attend board of directors meetings to report internal audit results and participate in board deliberations.

[Principle 4.8 Effective use of independent external directors]

The Company, recognizing the importance of gaining objective oversight for its business operations to realize sustainable growth and higher corporate value on a medium- to long-term basis, has named its first external director in 1999, maintained the board with multiple external directors since 2002 and appointed its first female external director in 2004. Given the growing importance of such governance practices, we have had external directors constitute at least half of the board since 2015, making them the majority in some years thereafter and most recently in 2021, following the approval of the 71st Annual General Meeting of Shareholders. All selected external directors are registered as independent external directors with the Tokyo Stock Exchange.

In appointing external directors, we choose individuals who have expert knowledge and extensive experience in diverse fields to support our aims in realizing sustainable growth and higher corporate value on a medium- to long-term basis. To strengthen oversight by external directors, we started appointing an external director to chair board meetings from April 2021.

[Principle 4.9 Independence standards and qualification for independent external directors]

Candidates for external directors must identify with and support the Company's corporate values, possessing sufficient knowledge and experience to help the board make legitimate and logical decisions. They should be capable of furnishing advice, proposals and opinions that are aligned with the common interests of our shareholders from an independent and impartial standpoint. On top of satisfying these requirements, they must also meet the independence criteria that we have set based on stock exchange guidelines.

Details can be found on our website.

(Independence criteria) www.sato-global.com/about/governance/governance.html

[Supplementary Principle 4.10.1 Roles and responsibilities of Nomination and Remuneration Advisory Committees]

To enhance the independence, objectivity and accountability of board functions on matters of nomination and remuneration for the Company's directors, executive officers and senior officers, we have established two advisory committees to the board of directors in April 2021 with independent external directors chairing and forming the majority on each committee. Meeting once a month in principle (as was the case in FY 2021), the two committees discuss a wide range of topics and provide reports to the board of directors.

The Nomination Advisory Committee functions to not only propose appointment and dismissal of individual candidates, but also look into the board's composition and overall operation (including decision-making on appointment policies or standards/processes and succession planning) to provide reports and recommendations. The scope of its work includes reviewing the Company's approach to diversity, selection/development of core managerial personnel, corporate culture and other important topics.

The Remuneration Advisory Committee functions to not only support the board in drafting performance evaluations for directors, executive officers and senior officers with their proposed remuneration, but also look into all remuneration matters (including remuneration policies or standards/procedures and information disclosure) to provide reports and recommendations. The scope of its work includes reviewing the Company's remuneration structure for employees as well.

[Supplementary Principle 4.11.1 Board diversity]

The Company defines standards and processes for appointment/dismissal of directors, ensuring that the board comprises members with various professional backgrounds (including experience in leading other companies) and perspectives so that it can draw on their diverse ideas, opinions and values.

Besides keeping the number of directors to no more than 12 to allow for active discussions, we also disclose a skills matrix showing the competencies of each director mapped against what is expected of their roles in nine areas under three categories: (1) Knowledge and experience to lead management and business appropriately, (2) Knowledge and experience to establish and maintain an appropriate management foundation, and (3) Panoramic perspectives to ensure sustainability.

For details, please refer to "(3) Appointment and dismissal of directors and representative directors" under section II-2 "Matters on functions of business execution, audit/oversight, nomination and remuneration decisions (Overview of current corporate governance system)."

[Supplementary Principle 4.11.3 Analysis and evaluation of overall effectiveness of the board of directors]
To improve the board's effectiveness and functionality, the Company had each board member (including Audit & Supervisory Board members) complete an evaluation survey for FY 2021 to assess, for example, the composition of the board, its roles/responsibilities, operations, support system and relationship with shareholders, collating and analyzing the results for discussion at board meetings. According to the evaluation results, the board was generally found to have functioned effectively during FY 2021 and recent months, with adequate efforts being made to better its performance from the previous year. For issues identified in these evaluations, we will make it a point to implement changes and continuous improvements so as to further enhance the effectiveness of the board.
For details, please refer to "(2) Evaluation of the board's effectiveness" under section II-2 "Matters on functions of business execution, audit/oversight, nomination and remuneration decisions (Overview of current corporate governance system)."

[Supplementary Principle 4.14.2 Training of directors and Audit & Supervisory Board members]
The Company provides its directors and executive officers with opportunities to attend external seminars and conferences to learn skills for improving leadership competencies and developing business management abilities so as to better fulfill their roles and responsibilities. Audit & Supervisory Board members also attend seminars held by the Japan Audit & Supervisory Board Members Association and the Company's independent auditor to exchange information and opinions with their counterparts in other companies, allowing them to re-examine their roles/responsibilities and pursue development of necessary skills.

[Principle 5.1 Policy for constructive dialogue with shareholders]
We attach great importance to dialogue with shareholders as a means to help the Company realize sustainable growth and raise medium- to long-term corporate value. As part of our responsibility to explain information about our business operations to shareholders, we take care to answer questions shareholders raise at the general meeting of shareholders.
With regard to IR activities, we hold financial results briefings (quarterly) and one-on-one briefings (as necessary) for institutional investors. Our CEO, CFO and IR Department also respond to individual meetings with institutional investors actively and invite external directors to these meetings as well, in efforts to better reflect investors' opinions and requests in how we manage our business operations.
In addition, we utilize the Company's website to proactively disclose our IR disclosure policy, financial summaries, press releases and other IR information and updates, as well as to attend to questions from investors.
When engaging in dialogue, the Company observes the quiet period as clearly stipulated by our internal rules and takes sufficient care to control the handling of insider information pertaining to material non-public facts in order to protect our investors and maintain their trust in the fairness and integrity of the securities market.

[Principle 5.2 Establishing and disclosing business strategies and plans]
We have formulated a medium-term management plan with the focus to invest in three main growth strategies — (1) enhance region/market strategies, (2) drive technological innovation, and (3) integrate ESG into our corporate model — over a three-year span. We will develop an optimal business portfolio and aim to achieve sales of ¥126 billion, operating income of ¥11.2 billion, operating income ratio of 8.9 percent and ROIC (return on invested capital) of 9.4 percent by FY 2023 when the term of the plan ends.
To ensure we pursue the greatest possible returns when taking certain risks in our investments, our Business Review Committee established in April 2021 first reviews investment proposals based on the WACC (weighted average cost of capital) benchmark of 8 percent and using a rational and multifaceted approach, after which the Senior Executive Management Meeting deliberates on the matter for decision making.

[Supplementary Principle 5.2.1 Basic policy regarding business portfolio; status of portfolio review]
We did not need to review our business portfolio when we were operating solely in the DCS & Labeling business since founding. Starting FY 2021, however, our Senior Executive Management Meeting began discussing our business portfolio and reviewing how our business segments are defined, with the objective of investing business resources more effectively for the future. The meeting also looks into which investments we should prioritize and how much we should invest to achieve medium- to long-term growth from a comprehensive perspective while taking into account quantitative/qualitative analyses and business strategies. Annual investment plans will be decided after details are submitted to the board of directors meetings for approval.

We are keeping our reportable segments as Auto-ID solutions (Japan) and Auto-ID solutions (Overseas) for now but may categorize our business in the future differently by, for example, market verticals to match business growth trends. The Senior Executive Management Meeting will examine business strategies and related conditions prior to any such change.

2. Capital structure

Foreign shareholding ratio	20% to 30%
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[Major shareholders]

Name	Shares owned	% to shares outstanding
The Master Trust Bank of Japan, Ltd. (trust account)	5,001,800	14.80
Sato Yo International Scholarship Foundation	3,786,200	11.21
Custody Bank of Japan, Ltd. (trust account)	2,224,700	6.58
SATO Employees' Stockholding	1,484,023	4.39
The Bank of New York 133612	1,198,600	3.55
Government of Norway	979,650	2.90
The Bank of New York Mellon 140051	917,700	2.72
Shizue Sato	897,470	2.66
Mieko Yokoi	894,345	2.65
Arena Co. Ltd.	854,460	2.53

Presence of controlling shareholder (excluding parent company)	-
Presence of parent company	No

Supplementary explanation

1. A large-volume possession report publicly filed on January 21, 2022, indicated that Nomura Asset Management (and one other joint holder) owns the following number/ratio of our issued shares as of January 14, 2022. This information is not included in the above list as we are unable to verify its actual shareholding as of March 31, 2022.

Name: Nomura Asset Management Co., Ltd. (and one other joint holder)
Address: 2-2-1 Toyosu, Koto-ku, Tokyo 135-0061, Japan
Ownership: 2,496,000 shares
Shareholding ratio: 7.15%

2. A large-volume possession report publicly filed on October 21, 2021, indicated that Sumitomo Mitsui Trust Asset Management (and one other joint holder) owns the following number/ratio of our issued shares as of October 15, 2021. This information is not included in the above list as we are unable to verify its actual shareholding as of March 31, 2022.

Name: Sumitomo Mitsui Trust Asset Management Co., Ltd. (and one other joint holder)
Address: 1-1-1 Shibakoen, Minato-ku, Tokyo 105-0011, Japan
Ownership: 2,525,900 shares
Shareholding ratio: 7.23%

3. A large-volume possession report publicly filed on March 22, 2022, indicated that Baillie Gifford & Co owns the following number/ratio of our issued shares as of March 15, 2022. This information is not included in the above list as we are unable to verify its actual shareholding as of March 31, 2022.

Name: Baillie Gifford & Co (and one other joint holder)
Address: Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN, Scotland
Ownership: 2,098,200 shares
Shareholding ratio: 6.01%

3. Corporate attributes

Listed stock market and market section	Tokyo Stock Exchange, Prime market
Fiscal year-end	March
Type of business	Machinery
Number of employees (consolidated) as of the end of the previous fiscal year	More than 1,000
Net sales (consolidated) for the previous fiscal year	¥100 billion to ¥1 trillion
Number of consolidated subsidiaries as of the end of the previous fiscal year	50 to 100

4. Policy for measures to protect minority shareholders in conducting transactions with controlling shareholder

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5. Special circumstances which may have material impact on corporate governance

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II. Business management organization and other corporate governance systems regarding decision-making, business execution, and oversight

1. Organizational composition and operation

Organization form	Company with Audit & Supervisory Board
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[Directors]

Maximum number of directors stipulated in Articles of Incorporation	12
Term of office stipulated in Articles of Incorporation	1 year
Chairperson of the board	External director
Number of directors	9
Appointment of external directors	Yes
Number of external directors	5
Number of external directors designated as independent officers	5

External directors' relationship with the Company (1)

Name	Attribute	Relationship with the Company*										
		a	b	c	d	e	f	g	h	i	j	k
Yuko Tanaka	Academic											
Ryoji Itoh	Corporate (External)											
Hideo Yamada	Attorney-at-law											
Sadayoshi Fujishige	Corporate (External)											
Yoshiko Nonogaki	Corporate (External)											

*Circumstances that affect the director's independence

Symbols show that the category applies to, or has applied to:

- the director now/recently (○) or in the past (△);
- a close relative of the director now/recently (●) or in the past (▲)

- a. Executive of the listed company or its subsidiary
- b. Non-executive director or executive of the listed company's parent company
- c. Executive of the listed company's fellow subsidiary
- d. Major supplier of the listed company or an executive thereof
- e. Major client of the listed company or an executive thereof
- f. Individual who provides consulting, accounting or legal services to the listed company and receives in return significant payment or other transfers of value, on top of compensation for his/her board service
- g. Major non-corporate shareholder (or executive of major corporate shareholder) of the listed company
- h. (The director is/was) Executive of the listed company's business partner (other than d., e. or f.)
- i. (The director is/was) Executive of any organization whose external director is an executive of the listed company
- j. (The director is/was) Executive of any organization that receives contributions from the listed company
- k. Others

External directors' relationship with the Company (2)

Name	Independent officer	Key career information (as supplementary explanation on director's independence)	Reasons for (i) appointment as external director and (ii) designation as independent officer
Yuko Tanaka	Yes	<p>Professor Emeritus, Hosei University</p> <p>Project Professor, Hosei University Research Center for Edo-Tokyo Studies</p> <p>Chairperson, Tokyo's Council for Gender Equality</p> <p>Director, Suntory Foundation for Arts</p> <p>Director, Japan Massive Open Online Education Promotion Council</p>	<p>(i) To apply Ms. Tanaka's extensive experience and broad insights from her career as professor emeritus and involvement in gender equality work to the Company's business management.</p> <p>(ii) The individual has no disqualifying relationships with the Company as specified in the guidelines concerning listed company compliance, etc., and therefore shall neither control nor be controlled by our senior management to any significant extent. Free of any potential conflict of interests with general shareholders, the individual is deemed capable of meeting shareholder expectations in providing oversight independently of the Company's representative directors and other executives, to ensure effective corporate governance.</p>
Ryoji Itoh	Yes	<p>Representative Director, Planet Plan. Co., Ltd.</p> <p>External Director, H.U. Group Holdings Inc.</p> <p>Senior Researcher, Keio Research Institute at SFC</p>	<p>(i) To apply Mr. Itoh's extensive experience and broad insights as corporate manager and graduate school professor to the Company's business management.</p> <p>(ii) The individual has no disqualifying relationships with the Company as specified in the guidelines concerning listed company compliance, etc., and therefore shall neither control nor be controlled by our senior management to any significant extent. Free of any potential conflict of interests with general shareholders, the individual is deemed capable of meeting shareholder expectations in providing oversight independently of the Company's representative directors and other executives, to ensure effective corporate governance.</p>
Hideo Yamada	Yes	<p>Attorney-at-law</p> <p>President, Yamada & Ozaki Law Office</p> <p>Chairperson, Akiko Tachibana Memorial Foundation</p> <p>External Audit & Supervisory Board Member, Taiyo Chemical Industry Co., Ltd.</p> <p>External Director, Hulic Co., Ltd.</p> <p>External Director, Mikuni Corporation</p>	<p>(i) To apply Mr. Yamada's professional knowledge, extensive experience and broad insights as an attorney-at-law to the Company's business management.</p> <p>(ii) The individual has no disqualifying relationships with the Company as specified in the guidelines concerning listed company compliance, etc., and therefore shall neither control nor be controlled by our senior management to any significant extent. Free of any potential conflict of interests with general shareholders, the individual is deemed capable of meeting shareholder expectations in providing oversight independently of the Company's representative directors and other executives, to ensure effective corporate governance.</p>

Name	Independent officer	Key career information (as supplementary explanation on director's independence)	Reasons for (i) appointment as external director and (ii) designation as independent officer
Sadayoshi Fujishige	Yes	<p>Special Advisor, Lion Corporation</p> <p>Chairperson, Advertising Council Japan</p> <p>Chairperson, Japan Marketing Association</p> <p>External Director, Showa Nishikawa Co., Ltd.</p> <p>External Director, Nitto Boseki Co., Ltd.</p> <p>External Director, TV Asahi Holdings Corporation</p> <p>External Audit & Supervisory Board Member, TV Asahi Corporation</p>	<p>(i) To apply Mr. Fujishige's extensive experience and broad insights as corporate manager to the Company's business management.</p> <p>(ii) The individual has no disqualifying relationships with the Company as specified in the guidelines concerning listed company compliance, etc., and therefore shall neither control nor be controlled by our senior management to any significant extent. Free of any potential conflict of interests with general shareholders, the individual is deemed capable of meeting shareholder expectations in providing oversight independently of the Company's representative directors and other executives, to ensure effective corporate governance.</p>
Yoshiko Nonogaki	Yes	<p>External Director, Nifco Inc.</p> <p>External Director, GS Yuasa Corporation</p>	<p>(i) To apply Ms. Nonogaki's extensive experience and broad insights gained from her leadership roles in a multinational corporation to the Company's business management.</p> <p>(ii) The individual has no disqualifying relationships with the Company as specified in the guidelines concerning listed company compliance, etc., and therefore shall neither control nor be controlled by our senior management to any significant extent. Free of any potential conflict of interests with general shareholders, the individual is deemed capable of meeting shareholder expectations in providing oversight independently of the Company's representative directors and other executives, to ensure effective corporate governance.</p>

Presence of discretionary committee(s) equivalent to Nomination or Remuneration Committees	Yes
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Establishment and composition of discretionary committee(s), and attributes of the chairperson

	Committee's name	Total committee members	Full-time members	Internal directors	External directors	External experts	Others	Chairperson
Committee equivalent to Nomination Committee	Nomination Advisory Committee	5	-	2	3	-	-	External director
Committee equivalent to Remuneration Committee	Remuneration Advisory Committee	5	-	2	3	-	-	External director

Supplementary explanation

As of June 17, 2022, our discretionary committees are made up as follows.

Nomination Advisory Committee

Chairperson: Yuko Tanaka (external director)

Members: Ryoji Itoh (external director), Sadayoshi Fujishige (external director),
Ryutaro Kotaki (representative director), Tatsuo Narumi (non-executive internal director)

Remuneration Advisory Committee

Chairperson: Sadayoshi Fujishige (external director)

Members: Ryoji Itoh (external director), Yoshiko Nonogaki (external director),
Yoichi Abe (representative director), Tatsuo Narumi (non-executive internal director)

[Audit & Supervisory Board members]

Establishment of Audit & Supervisory Board	Yes
Maximum number of Audit & Supervisory Board members stipulated in Articles of Incorporation	5
Number of Audit & Supervisory Board members	4

Cooperation among Audit & Supervisory Board members, independent auditor and internal audit departments

Audit & Supervisory Board members attend important meetings including the board of directors meeting and Senior Executive Management Meeting in accordance with decided audit policies and plans.

Members work closely with the Company's independent auditor (audit firm) to receive explanations on audit plans/policies, exchange opinions on the quarterly audit/review reports the firm provides and attend site visits by the firm when necessary.

Full-time members work with our audit departments as well to understand their internal audit plans and regularly receive their audit results and evaluation findings on internal controls for financial reporting, sharing these results/findings with external members on the same board. Full-time members also attend internal audits by the audit departments when necessary.

Appointment of external Audit & Supervisory Board members	Yes
Number of external Audit & Supervisory Board members	2
Number of external Audit & Supervisory Board members designated as independent officers	2

External Audit & Supervisory Board members' relationship with the Company (1)

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Noriko Yao	Attorney-at-law													
Naoki Kubo	CPA													

*Circumstances that affect the Audit & Supervisory Board member's independence

Symbols show that the category applies to, or has applied to:

- the Audit & Supervisory Board member now/recently (○) or in the past (△);
- a close relative of the Audit & Supervisory Board member now/recently (●) or in the past (▲)

- a. Executive of the listed company or its subsidiary
- b. Non-executive director or accounting advisor of the listed company or its subsidiary
- c. Non-executive director or executive of the listed company's parent company
- d. Audit & Supervisory Board member of the listed company's parent company
- e. Executive of the listed company's fellow subsidiary
- f. Major supplier of the listed company or an executive thereof
- g. Major client of the listed company or an executive thereof
- h. Individual who provides consulting, accounting or legal services to the listed company and receives in return significant payment or other transfers of value, on top of compensation for his/her board service
- i. Major non-corporate shareholder (or executive of major corporate shareholder) of the listed company
- j. (The Audit & Supervisory Board member is/was) Executive of the listed company's business partner (other than d., e. or f.)
- k. (The Audit & Supervisory Board member is/was) Executive of any organization whose external Audit & Supervisory Board member is an executive of the listed company
- l. (The Audit & Supervisory Board member is/was) Executive of any organization that receives contributions from the listed company
- m. Others

External Audit & Supervisory Board members' relationship with the Company (2)

Name	Independent officer	Key career information (as supplementary explanation on Audit & Supervisory Board member's independence)	Reasons for (i) appointment as external Audit & Supervisory Board member and (ii) designation as independent officer
Noriko Yao	Yes	Attorney-at-law Partner, TMI Associates External Director, Meiko Network Japan Co., Ltd. External Director, Asahi Net, Inc. External Director, JGC Holdings Corporation	(i) To apply Ms. Yao's professional knowledge, extensive experience and broad insights as an international attorney-at-law to the Company's business management. (ii) The individual has no disqualifying relationships with the Company as specified in the guidelines concerning listed company compliance, etc., and therefore shall neither control nor be controlled by our senior management to any significant extent. Free of any potential conflict of interests with general shareholders, the individual is deemed capable of meeting shareholder expectations in providing oversight independently of the Company's representative directors and other executives, to ensure effective corporate governance.

Name	Independent officer	Key career information (as supplementary explanation on Audit & Supervisory Board member's independence)	Reasons for (i) appointment as external Audit & Supervisory Board member and (ii) designation as independent officer
Naoki Kubo	Yes	Certified public/public tax accountant President, Kubo Accounting Office Executive, Tokyo Chapter of The Japanese Institute of Certified Public Accountants External Auditor, Japan Federation of Land and House Investigators' Associations External Auditor, The Japan-Korea Cultural Foundation	(i) To apply Mr. Kubo's professional knowledge and experience as certified public/public tax accountant to the Company's business management. (ii) The individual has no disqualifying relationships with the Company as specified in the guidelines concerning listed company compliance, etc., and therefore shall neither control nor be controlled by our senior management to any significant extent. Free of any potential conflict of interests with general shareholders, the individual is deemed capable of meeting shareholder expectations in providing oversight independently of the Company's representative directors and other executives, to ensure effective corporate governance.

[Independent officers]

Number of independent officers	7
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Matters relating to independent officers

- All the Company's five external directors (of which two are women) and two external Audit & Supervisory Board members (one woman) are independent officers.
- These independent officers hold opinion exchange sessions together with non-executive internal directors and Audit & Supervisory Board members as and when needed to engage in useful discussions and share information on business management issues without the control of corporate managers and from perspectives independent of business execution. Where necessary, they will follow up on discussed issues to deliberate, report, or make suggestions within the board of directors to help solve them accordingly.
- The Company referred to stock exchange guidelines and set its own criteria to objectively determine the independence of its external directors and Audit & Supervisory Board members. See section I [Principle 4.9] or our website for details.
(Independence criteria) www.sato-global.com/about/governance/governance.html

[Incentives]

Implementation of measures to provide incentives to directors	Performance-based stock compensation plan, Stock option plan (discontinued in 2016)
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Supplementary explanation

The Company aims to establish a clear connection between business performance/shareholder value and remuneration for the management team. Previously, we had adopted the stock compensation-type stock option plan for internal directors and executive officers which was approved at the 63rd Annual General Meeting of Shareholders held on June 21, 2013. The plan has, however, been discontinued upon adoption of a new performance-based stock compensation plan that was approved at the 66th Annual General Meeting of Shareholders held on June 21, 2016. Accordingly, the Company shall no longer allocate new stock options going forward.

(1) Overview of performance-based stock compensation plan

At the 66th Annual General Meeting of Shareholders, approval was granted for the adoption of a performance-based stock compensation plan (hereinafter "Plan") in which the Company's executive directors (excluding external directors and directors who do not reside within Japan [hereinafter "non-residents"]) and executive officers (excluding non-residents) are issued or delivered (hereinafter collectively referred to as "Delivery") shares of the Company's stock and/or converted equivalent cash amounts

(hereinafter collectively referred to as “Company shares”) based on metrics including the Company’s degree of achievement of performance goals. With the expiration of the Plan’s initial applicable term (five fiscal years from FY 2016 to FY 2020), the Company shall continue the Plan (with partial amendments) in subsequent fiscal years, as approved at the 71st Annual General Meeting of Shareholders held in June 2021.

(2) Amount and details of compensation under the Plan

(i) Subjects of the Plan

- Directors, executive officers and senior officers (all excluding non-residents).

(ii) Effects of subject shares on the Company’s issued shares

a. Maximum amount of money contributed by the Company:

- A total of ¥500 million for each three-year term (inclusive of ¥25 million for external directors).

b. Maximum number of Company shares for Delivery, and method of acquisition:

- 180,000 shares for each three-year term (inclusive of 9,000 shares for external directors); this means a maximum of 60,000 points (inclusive of 3,000 points for external directors) can be granted to subjects per year, with one point being matched to one share of the Company’s stock.
- Total subject shares account for approximately 0.5% of the Company’s total number of issued shares (as of March 31, 2021); this ratio translates to approximately 0.1% on a per year basis.
- While the trust generally acquires the Company’s shares using funds contributed by the Company for Delivery of Company shares, no additional shares will be acquired for the three-year term starting FY 2021 as there are still residual shares within the trust.

(iii) Basis for Delivery, etc. of Company shares, etc.

- Fixed points and/or performance-linked points are granted to subjects every year and used toward Delivery; performance-linked coefficient will vary in a range of 0 to 200% based on the Company’s degree of achievement of yearly performance goals (consolidated operating profit, etc.) during the Plan’s applicable term.

*Performance-linked points are not applicable to non-executive directors (including external directors).

(iv) Timing of Delivery of Company shares.

- After completion of the trust period (every three fiscal years).
- At any point during the trust period when subjects of the Plan resign or retire.
- At any point during the trust period when subjects of the Plan become non-residents.

Recipients of stock options	Internal directors and executive officers
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Supplementary explanation

Following the approval of the 66th Annual General Meeting of Shareholders, the Company’s stock option plan has been discontinued, with no new stock acquisition rights being issued thereafter. However, as the stock acquisition rights are exercisable for a period of thirty years (starting the day after the date of issuance), we still have five internal directors/executive officers holding these rights as of now. When these holders resign or retire as director/executive officer, they are allowed to exercise all their stock acquisition rights by the tenth day after their resignation or retirement.

[Director remuneration]

Disclosure of individual directors’ remuneration	No
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Supplementary explanation

Total remuneration of directors in FY 2021 amounted to ¥256 million (inclusive of non-performance stock compensation and performance-based monetary and stock compensation).

Presence of a remuneration policy	Yes
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Disclosure of remuneration policy

(1) Matters relating to remuneration policy

The remuneration structure for board members is an extremely important element of corporate governance.

The Company adopts the following policy, which is based on recommendations from its Remuneration Advisory Committee and has been approved at a board meeting in March 2022.

- (i) Remuneration amount shall be set at a level capable of securing and retaining board members to make important management decisions and supervise business execution.
- (ii) The Company shall establish a remuneration structure that contributes toward sustainable growth and higher medium- to long-term corporate value and resonates with the values of shareholders and other stakeholders.
- (iii) The board shall set out a logical, fair, and transparent procedure for determining remuneration that the Company would comply with.

Remuneration for the Company's directors consists of basic compensation (fixed monetary sum), performance-based monetary compensation and performance-based stock compensation. The weighting of each component is decided by considering balance with overall remuneration amount and position of officer, whereby those in higher positions receive a larger ratio of performance-based compensation. This does not apply to non-executive directors and Audit & Supervisory Board members, who shall only receive basic/fixed compensation.

In determining remuneration, we set out and follow an appropriate procedure that enables fair and transparent deliberations, reviewing it from multiple angles to check for consistency with our remuneration policy among others. We believe this keeps us aligned with our remuneration policy.

Procedure to determining remuneration for executive directors/officers

Board of directors revises basic/performance-based remuneration amount (tied to position) and payment coefficient

Remuneration level and coefficient shall remain fixed unless there are major changes in conditions.
March 2022



Representative directors and internal directors draft performance evaluation for fiscal year ended

Representative directors shall assess officers based on business and individual achievements, and their assessments shall be discussed among internal directors for evaluation across multiple dimensions.
Every May



Board of directors approves evaluation and decides performance-based remuneration amount for each officer

Remuneration shall be decided after checking and ensuring that there are no flaws in the evaluation outcomes and decision-making process.
Every May

Our Remuneration Advisory Committee (established in April 2021) is responsible for looking into all remuneration matters including the above procedure to provide reports and recommendations. Note that the above remuneration procedure does not apply to Audit & Supervisory Board members, whose remuneration amount shall be decided with their consent, in order to ensure their independence and objectivity.

(2) Matters relating to remuneration proposals approved at the shareholders meeting

The maximum amount of remuneration for board directors is ¥400 million per year (excluding employee wages for executive positions they hold in the Company). This was approved at the annual general meeting of shareholders held on June 27, 1997 when 13 directors were in office.

On top of this amount, directors also receive performance-based stock compensation paid through a Board Incentive Plan (BIP) Trust. This was approved at the 66th Annual General Meeting of Shareholders when 12 directors were in office. As the performance-based stock compensation plan's initial applicable term expired in five fiscal years (ending March 31, 2021), approval to continue the plan in subsequent fiscal years (with partial amendments) was given at the 71st Annual General Meeting of Shareholders when eight directors were in office.

The maximum amount of remuneration for Audit & Supervisory Board members is ¥70 million per year. This was approved at the 69th Annual General Meeting of Shareholders held on June 21, 2019 when four Audit & Supervisory Board members were in office.

(3) Matters relating to performance-based remuneration

Performance-based monetary compensation, or short-term incentive (STI), is dependent on individual achievement, whereby each officer is evaluated by how well they meet key performance indicators that

reflect their respective responsibilities. Performance-based stock compensation, or long-term incentive (LTI), on the other hand, depends on business achievement that is measured by the company's degree of accomplishment of its consolidated operating income target and consolidated ROIC target. This ensures we consider not only the company's immediate results but also its medium- and long-term growth in terms of capital efficiency. Executive directors will be granted performance-linked points every June based on the aforementioned metrics to receive compensation corresponding to their accumulated points following the end of each three-year term.

The general remuneration structure for company executives is as follows.

Position	Fixed compensation	Performance-based compensation	Composition of performance-based compensation	
			STI	LTI
Representative Director and President	50%	50%	30%	20%
Representative Director and Vice President	60%	40%	25%	15%
Director and Vice President	60%	40%	25%	15%
Vice President	60%	40%	25%	15%
Executive officer	70%	30%	20%	10%
Senior officer	70%	30%	20%	10%

The following shows ratios calculated based on actual remuneration for board members (including company executives) in FY 2021.

Position	Fixed compensation	Performance-based compensation	Stock compensation	Composition of performance-based compensation	
				STI	LTI
Representative Director and President	56.2%	43.8%	0.0%	22.5%	21.3%
Representative Director and Vice President	75.5%	24.5%	0.0%	14.3%	10.2%
Director and Vice President	74.0%	26.0%	0.0%	14.9%	11.1%
Non-executive internal director	96.5%	0.0%	3.5%	0.0%	0.0%
External director	92.2%	0.0%	7.8%	0.0%	0.0%
Internal member of Audit & Supervisory Board	100%	0.0%	0.0%	0.0%	0.0%
External member of Audit & Supervisory Board	100%	0.0%	0.0%	0.0%	0.0%

(4) Breakdown of remuneration for board members

Position	Total remuneration (Millions of JPY)	Remuneration components (Millions of JPY)				No. of eligible board members
		Fixed compensation	Performance-based compensation		Stock compensation	
			STI	LTI		
Director	250	196	29	25	6	9
(i) External	59	59	0	0	5	5
(ii) Internal	191	137	29	25	1	4

Audit & Supervisory Board member	57	57	0	0	0	5
(i) External	16	16	0	0	0	3
(ii) Internal	41	41	0	0	0	2

(5) Total consolidated remuneration for officers

Information omitted because there are no consolidated remuneration exceeding ¥100 million in total amount.

[Support for external directors and/or external Audit & Supervisory Board members]

- The Company does not have departments or personnel specifically dedicated to assisting external directors and external Audit & Supervisory Board members in their duties.
- The board secretariat and relevant departments furnish materials prior to board meetings, explaining details of agendas in advance whenever necessary.
- The Company maintains a framework that enables meeting minutes, records of resolutions such as internal approval forms, and other important documents to be shared at any time.
- Our full-time Audit & Supervisory Board members attend important company meetings and provide necessary reports to the external Audit & Supervisory Board members at their regular meetings.
- The Company provides information releases, annual Integrated Reports, in-house newsletters and other such materials.

[Advisory positions held by former Presidents/CEOs]

Details of advisors/consultants who have previously served as President/CEO

Name	Title/ Position	Responsibilities	Work arrangement and conditions	Date of retirement as President	Term of office
Koichi Nishida	Advisor	Handling outside activities with industry organizations	Full-time, with remuneration	June 22, 2012	1 year (starting July 1, 2021)
Ikuo Dobashi	Advisor	Providing advice for certain operations as per the President's request	Full-time, with remuneration	June 24, 2011	1 year (starting July 1, 2021)

2. Matters on functions of business execution, audit/oversight, nomination and remuneration decisions (Overview of current corporate governance system)

(1) Structure and operation of the board of directors

Our management consists of a board system with an Audit & Supervisory Board to provide stronger audit and controls. We also have an executive officer system in place to separate our operational functions from our managerial decision-making and oversight functions to enable quicker decisions.

At the point of releasing this report, we have nine directors on our board, complying with our Articles of Incorporation, which limits the number of directors to no more than 12. Out of these nine, three are concurrently serving as executive officers, one as non-executive internal director, and the remaining five as external directors. External directors make up the majority of our board and help ensure proper oversight of the management team with their independent perspectives.

The board of directors meets once a month in principle; it convened 13 times in total for FY 2021. Besides board meetings, sessions have also been held since FY 2018 to explain important agenda points and industry-specific sales measures to ensure external directors can take part in various discussions and deepen their understanding of the Company's operations. This aims to aid in their duties and make board meetings more effective.

In January 2020, we changed how the board is chaired, electing a non-executive internal director familiar with internal issues, replacing a rotating chairmanship. The intent of this change was for the board chair to set relevant and timely meeting agendas and drive collaboration between executives and external

directors to help the board function more competently and responsibly in making major business decisions and providing management oversight. From April 2021, we elected an external director to chair the board to further enhance its oversight function and strengthen governance.

To adhere to revisions made to Japan's Corporate Governance Code in FY 2021, our board now focuses more on deliberating important business matters and exercising oversight. This is why we now delegate more authority to the executive team, enabling decision-making on whether to take various actions and how to do so through our Senior Executive Management Meeting (chaired by a non-executive internal director) and Executive Officers Meeting. This improves our risk management capability even as we accelerate the business.

In line with the above changes, we established a Business Review Committee in April 2021 under the Senior Executive Management Meeting. This committee examines and analyzes risks the Company takes in conducting business (when making investments and loans, acquiring and disposing of stock and fixed assets, entering into business partnerships or important agreements, and selling or buying businesses) to improve the quality of deliberations for top-level decision-making.

The Senior Executive Management Meeting also placed the Sustainability Promotion Committee (established in 2019) under its direct report effective April 2022, seeing the importance of addressing climate change and other sustainability priorities in not only reducing risks but also generating revenue, and that it would raise medium- to long-term corporate value. The committee promotes our efforts in contributing to society with our business offerings (for supply chain optimization, etc.), supporting the circular economy and decarbonization in our operations, protecting human capital and preserving natural capital.

(2) Evaluation of the board's effectiveness

The Company conducts yearly surveys to analyze and evaluate the effectiveness of our board of directors to check our corporate governance and take appropriate measures to sustainably improve corporate value. The following summarizes our evaluation approach and results for FY 2021 and early FY 2022.

(i) Evaluation methodology

At our March 2022 board meeting, the board secretariat explained the purpose and details of the FY 2021 evaluation survey before distributing it to the nine directors and four Audit & Supervisory Board members for their feedback.

With the survey responses that were collected anonymously, directors and Audit & Supervisory Board members exchanged opinions at a session in April and went on to finalize the results at the board meeting in May after considering the appropriateness of the evaluation approach, process and areas for improvement.

(ii) Survey themes

Designed to identify progress in improving the board's effectiveness, the survey consisted of 12 questions covering the following six topics upheld from the previous year, with reference to the Corporate Governance Code (CGC).

Topics evaluated (corresponding CGC principles in parentheses)

- a. Composition of the board (4.6, 4.7, 4.8, 4.11)
- b. Roles/responsibilities of the board (2.4, 4.1, 4.2, 4.3, 4.8, 4.10, 4.11, 4.13)
- c. Operations of the board (4.12)
- d. System to support the board (4.8, 4.10, 4.13)
- e. Relationship with shareholders (5.1, 5.2)
- f. Other matters pertaining to overall effectiveness (write-in question)

(iii) Summary of results and areas for improvement

Directors and Audit & Supervisory Board members generally found the board to have functioned effectively during FY 2021 and recent months, with adequate efforts being made to better its performance from the previous year. There are, however, areas for improvement, which we will address with speed.

a. Composition of the board

With external directors having comprised at least half of directors in FY 2021, the board was deemed to be highly effective in the oversight of senior management. Our Nomination Advisory Committee (established in April 2021) will make diversity its top priority and devote efforts to making sure the board maintains a mix of gender representation and skill sets to leverage the real value of diversity.

b. Roles/responsibilities of the board

Survey responses noted improvements in the preparation of meeting agendas and timely submission of matters to the board, which contributed to proper board deliberations. We aim to make board meeting agendas and deliberations more substantial. After establishing advisory committees for nomination and remuneration in April 2021, we were able to delegate more decision-making authority to our representative directors and Senior Executive Management Meeting to let the board better focus on the deliberation of agendas that are fundamental to the company. We have appointed external directors to chair the board and advisory committees to ensure effective oversight for stronger governance. We received comments citing the importance of information sharing and the exchange of opinions among non-executive directors. We will continue to create such opportunities.

c. Operations of the board

Board members were able to actively exchange ideas at board meetings based on their respective expertise and experience, and improvements were made in the quality, volume and timely distribution of meeting materials. There is room for improvement to submit meeting agendas with more planning, which we shall address to better the operation of board meetings.

d. System to support the board

Board members were given sufficient opportunities to seek clarifications and receive additional information via information sessions and other channels, which led to active discussions at board meetings. Besides these sessions, we will also regularly engage external directors and Audit & Supervisory Board members in discussion sessions and non-executive directors in meetings with other officers to keep up information sharing. We will make sure the board receives review outcomes from advisory committees, reports from our internal audit departments, and other information as and when needed.

e. Relationship with shareholders

We have been engaging in dialogue with shareholders primarily through our representative directors. Our IR Department has been reporting shareholder feedback to board members every six months and will continue to enable more in-depth sharing of their views and concerns at future board meetings.

(3) Appointment and dismissal of directors and representative directors

We select, via a transparent process, candidates who are able to actively contribute to the board's decision-making and managerial oversight functions with their extensive experience/expertise and excellent character/discernment.

In April 2021, we established the Nomination Advisory Committee as an advisory committee to the board of directors. Chaired by an independent external director, the committee, comprised in majority of external directors, functions to not only propose the appointment and dismissal of individual candidates, but also look into the board's composition and overall operation (including decision-making on appointment policies or standards/processes and succession planning) to provide reports and recommendations.

(i) Criteria

a. Internal directors

Candidates need to be executive officers who possess the following experience, skills and attributes.

- Strategic judgment from a medium- to long-term perspective (ability to get to the essence of matters, think critically and have foresight and decisiveness).
- Leadership qualities to unite the organization and carry through radical changes (ability to lead collaboration, innovation and talent development toward results).
- High ethical standards and accountability toward the Company and society (integrity, acumen, alignment with corporate values, and impartiality).
- Strong sense of independence and awareness of problems (pertaining to market, business, company resources and self-improvement).
- Sufficient industry experience/knowledge and abundant mental/physical strength (work performance and personal health).

Candidates for representative director must, in addition to the above, have an outstanding track record of delivering results.

b. External directors

Candidates need to meet the following requirements and be chosen from diverse fields of specialization

(such as business management, academia, law or finance). External directors should comprise at least half of the board for governance reasons.

- Able to get to the essence of matters and raise issues to management in a rigorous manner.
- Able to place priority on attending the Company's board meetings and committing to board duties.

(ii) Appointment process

When consulted by the board of directors, the Nomination Advisory Committee engages in discussions to prepare and submit a candidate list based on the above criteria. The board shall deliberate on the committee's recommendations to select director candidates or appoint representative directors and executive directors.

(iii) Dismissal process

If there is objective evidence or other reasons to suggest that representative directors are deviating materially from the appointment/selection criteria, the Nomination Advisory Committee will discuss their dismissal and present its recommendations when consulted by the board of directors. Dismissal shall be made upon deliberation and approval of the board.

If directors are deemed to not fully meet the criteria, the board will not nominate them for election or reelection at the next general meeting of shareholders.

For directors and Audit & Supervisory Board members appointed at our 72nd Annual General Meeting of Shareholders held in June 2022, their skills/competencies are mapped against what is expected of their roles in the following skills matrix.

[Skills matrix for directors and Audit & Supervisory Board members]

			Knowledge and experience to lead management and business appropriately			Knowledge and experience to establish and maintain an appropriate management foundation			Panoramic perspectives to ensure sustainability			
	Executive	Independent	Name	a	b	c	d	e	f	g	h	i
Directors	●	–	Ryutaro Kotaki	●	●					●	●	
	●	–	Yoichi Abe	●		●	●	●		●	●	●
	●	–	Hiroyuki Konuma	●	●					●		●
	–	–	Tatsuo Narumi	●				●	●	●		●
	–	●	Yuko Tanaka	●					●	●	●	●
	–	●	Ryoji Itoh	●		●	●			●	●	●
	–	●	Hideo Yamada	●				●	●	●	●	●
	–	●	Sadayoshi Fujishige	●		●	●		●	●		●
Audit & Supervisory Board members	–	●	Yoshiko Nonogaki	●		●			●	●		●
	–	–	Junichi Nagakura				●	●		●	●	
	–	–	Kiyohiko Yoshii			●	●	●		●	●	●
	–	●	Noriko Yao			●		●	●	●	●	●
	–	●	Naoki Kubo				●	●		●	●	●

Note that the table outlines particular skills/competencies that reflect the individual's experience and expertise, and is not an exhaustive definition of his/her capabilities.

a. Business/organizational management:

Has experience in management/executive positions at listed companies (including subsidiaries) or experience managing public and independent organizations

b. Industry knowledge (sales/technology):

Has practical experience in the Company's core business of auto-ID solutions

c. International business:

Has global experience, including overseas assignments

d. Finance and accounting:

Has practical experience and expertise

e. Legal and compliance:

Has practical experience and expertise

f. Human resource and labor relations:

Has practical experience and expertise

g. Governance and sustainability:

Possesses knowledge to realize sound and transparent governance together with sustainable business growth

h. Risk management:

Has practical experience and expertise

i. Diversity:

Brings diversity (in terms of gender, nationality or experience in different industries) to the board

(4) Audit checks

(i) By Audit & Supervisory Board

The Company has an Audit & Supervisory Board, which consists of four members (including two external members).

Audit & Supervisory Board members attend board of directors meetings to check business decisions and internal controls for their appropriateness and legal compliance. Full-time members also attend the Senior Executive Management Meeting and other important in-house meetings, where they audit/supervise different decision-making processes and resolutions reached. At both meetings, members express their opinions when necessary.

Members undertake a wide range of other activities, including verifying the readiness/operation of internal controls, examining the financial reporting system, reviewing various report materials, and checking the independence and audit quality of the Company's audit firm. In addition, they work with the audit firm to receive quarterly audit/review reports, exchange opinions and gather information as required to create an environment conducive to proper auditing. They also work with our internal audit function to regularly receive audit results and internal control evaluations concerning financial reporting to perform assessments across multiple dimensions.

Meeting and attendance records for the Audit & Supervisory Board in FY 2021 are as follows.

Name	Meetings held	Meetings attended
Nobuhiro Yokoi	13	13
Junichi Nagakura	13	13
Takao Yamaguchi	3	2
Noriko Yao	13	13
Naoki Kubo	10	10

At Audit & Supervisory Board meetings, deliberations primarily focus on the Japan headquarters' governance of its overseas subsidiaries or merged/acquired businesses with regard to their post-launch operations or level of integration with corporate strategies. In these instances, the Audit & Supervisory Board analyzes quantitative and qualitative information that it receives from overseas headquarters and finance & accounting departments to check for proper handling of issues. If there are areas for improvement, the board provides feedback to the management team and requests the Company's executives to take actions accordingly.

Full-time Audit & Supervisory Board members help the board function effectively by conducting audit activities on subjects with accurate, on-site information and sharing necessary reports with external members on the same board for them to provide opinions for discussion based on their respective professional knowledge and objective perspectives. They contribute to the sound and sustainable development of the Company in partnership with our independent auditor and internal audit function.

(ii) By internal audit function

Our internal audit function, comprising Japan and global audit departments, provides objective, independent reviews for assurance and advisory oversight. Based on internal audit plans set at the beginning of the fiscal year, the two departments audit our business operations in Japan and overseas to evaluate their various management activities related to governance, risk management and control processes to identify areas of improvement. They submit reports to the president who then instructs relevant managers/departments to make improvements and report back accordingly. They also share their findings with the Audit & Supervisory Board.

With the pandemic affecting travel to our global locations and imposing restrictions on internal audit activities in FY 2021, our audit departments have shifted to remote auditing and effectively used audit software to maintain and improve their audit quality.

(iii) By independent auditor

The Company receives accounting audits from professional services firm KPMG Azsa LLC, in compliance with provisions of the Companies Act and Financial Instruments and Exchange Act. There exist no material relationships of interest between the Company and the audit firm or its personnel conducting our accounting audits that need to be reported under the Certified Public Accountants Act.

a. Name of audit firm
KPMG Azsa LLC

b. Audit tenure
One year

c. Certified public accountants responsible for the Company's audits

Name	Audit firm	Continuous years of engagement
Hiroataka Nakata, designated limited liability partner	KPMG Azsa LLC	1
Toshinao Shimizu, designated limited liability partner	KPMG Azsa LLC	1

d. Composition of audit team

Also assisting with the accounting audits are 13 certified public accountants, six accountants (without CPA license), and five other personnel.

e. Policy/reason for selecting audit firm

The Company selects our audit firm after comprehensively considering various factors including independence, professionalism, audit quality, audit fees and global audit infrastructure, in accordance with our selection/evaluation criteria for independent auditor.

f. Evaluation of audit firm

In accordance with our selection/evaluation criteria for independent auditor, full-time Audit & Supervisory Board members prepare audit working papers at term end each year to evaluate the audit firm's activities for further discussion and deliberation at their board meetings.

The audit firm is evaluated on the following aspects to determine its overall propriety as independent auditor: 1) Quality control; 2) Personnel; 3) Fees; 4) Communication with Audit & Supervisory Board members; 5) Relationship with corporate managers, etc.; 6) Group audits; 7) Risk of misconduct

For the fiscal year ended, the audit firm has been given an overall good rating by our Audit & Supervisory Board for making effective use of the strengths of its global network in its audits.

g. Change of audit firm

Auditor for FY 2020: PricewaterhouseCoopers Aarata LLC

Auditor for FY 2021: KPMG Azsa LLC

We also disclosed related information as follows in our May 2021 extraordinary report.

1) Change of audit firm

New: KPMG Azsa LLC

Departing: PricewaterhouseCoopers Aarata LLC

2) Date effective

June 18, 2021 (date of our 71st Annual General Meeting of Shareholders)

3) Tenure of departing auditor

Since July 1, 2014

4) Disagreement with the departing auditor on audit findings within the last 3 years

Not applicable

5) Reason/background leading to change

The term of service of PwC Aarata was due to expire at the conclusion of our 71st Annual General Meeting of Shareholders. While our Audit & Supervisory Board has elected the said audit firm over the past seven years, audit fees were increasing as audits became more time-intensive in recent years.

We started looking into other audit firms and determined that KPMG Azsa is capable of providing proper financial audits after comprehensively evaluating it based on our selection criteria for independent auditor. We also found the audit firm suitable because of its potential to provide auditing from a new perspective.

6) Responses to statements made in 5) above

From departing auditor: No disagreement

From Audit & Supervisory Board: The decision for change was appropriate

(5) Audit fees

a. Fees paid to audit firm (as auditor remuneration, etc.)

	FY 2020		FY 2021	
	Fees for audit & attestation services (Millions of JPY)	Fees for non-audit services (Millions of JPY)	Fees for audit & attestation service (Millions of JPY)	Fees for non-audit services (Millions of JPY)
The Company	92	-	85	-
Consolidated subsidiaries	17	-	18	-
Total	109	-	104	-

Note: Fees under FY 2020 were paid to our then audit firm, PwC Aarata LLC.

b. Fees paid to other associates belonging to the same KPMG network

	FY 2020		FY 2021	
	Fees for audit & attestation services (Millions of JPY)	Fees for non-audit services (Millions of JPY)	Fees for audit & attestation service (Millions of JPY)	Fees for non-audit services (Millions of JPY)
The Company	-	-	-	-
Consolidated subsidiaries	51	6	72	2
Total	51	6	72	2

Notes: Fees under FY 2020 were paid to other associates belonging to the PwC network.

Non-audit services for consolidated subsidiaries in FY 2020 and FY 2021 refer to mainly tax and accounting advisory services, respectively.

c. Other audit fees deemed material

(FY 2020)

Not applicable

(FY 2021)

Not applicable

d. Audit fee policy

The policy is set taking into consideration a number of factors including company size, business characteristics and audit duration, and decided with the approval of the Audit & Supervisory Board.

e. Justification for audit fees

In accordance with the practical guidelines for working with independent auditors released by the Japan Audit & Supervisory Board Members Association, the Company's Audit & Supervisory Board checks the audit duration and fees in the audit firm's current audit plan against its previous audit plans and performance to review the appropriateness of the remuneration amount quoted. This remuneration is then approved by a majority rule of the board, as stipulated by Article 399, Paragraph 1 of the Companies Act.

3. Reasons for adopting the current corporate governance system

The Company strives to manage business in a fair and highly transparent manner by setting out corporate values and management policies, and thoroughly putting them into practice in order to grow sustainably and raise its value on a medium- to long-term basis.

Our board, comprised in majority of independent external directors, meets regularly to engage in active discussions and share information on business management issues, based on their expert knowledge and extensive experience in diverse fields. From April 2021, we elected an external director to chair the board to further enhance the supervisory function provided by external directors.

At the basis of these activities is Teiho, SATO's very own system introduced in 1976 for employees to write short daily reports (within a set word count) about their ideas or suggestions to better the Company and submit them directly to top management. Through these Teiho reports, employees feel a sense of involvement in top-level decision-making, while the management gets to understand what goes on at the different front lines of our business. This also contributes to our corporate governance. In FY 2022, we launched a new category of Teiho reports that are escalated to the employee's direct managers for their immediate consideration as our way of entrenching daily activities for on-site improvements/innovations and shaping a more proactive corporate culture.

In addition to our board of directors and Audit & Supervisory Board, our Teiho system and its bottom-up approach to governance is another key means for us to achieve a strong and effective corporate governance system that we will continue to maintain and strengthen.

III. Implementation of measures for shareholders and other stakeholders

1. Measures to vitalize the general meeting of shareholders and allow voting rights to be exercised smoothly

	Supplementary explanation
Early notification of general meeting of shareholders (convocation notice)	The Company sends out the Notice of Annual General Meeting no later than the legal minimum notice period of two weeks. We will strive further to send early notifications.
Scheduling general meeting of shareholders to avoid peak days	Since 2000, the Company has been holding its general meeting of shareholders in June avoiding dates that are generally popular. Our general meeting of shareholders in 2022 was held on June 17.
Allowing electronic voting	Since 2014, the Company has been using online voting for our general meeting of shareholders, accepting votes through electronic means (personal computers, smartphones and other portable phones).
Participating in electronic voting platform and other improvements in how institutional investors vote	Since 2014, the Company has been using the electronic voting platform services operated by ICJ, Inc. for our general meeting of shareholders to ensure that institutional investors have sufficient time to conduct reviews.
Providing convocation notice (summary) in English	The Company posts an English-translated summary of the convocation notice on websites of the Company and the Tokyo Stock Exchange.
Others	The Company posts the Japanese convocation notice and its English-translated summary on websites of the Company and the Tokyo Stock Exchange prior to sending them to our shareholders. Since 2010, we have made voting results available to the public via the Company's website and extraordinary reports.

2. IR activities

	Supplementary explanation	Involvement of company representative
Creating and publishing of disclosure policy	In addition to a basic policy, we have also established standards, methods, and quiet periods for information disclosure, and uploaded these on the Company's website.	
Regular briefings for individual investors	As part of our responsibility to explain information about our business operations to shareholders, we take care to answer questions shareholders raise at the general meeting of shareholders. Starting FY 2017, we have also been holding briefing sessions for individual investors several times each year.	Yes
Regular briefings for analysts and institutional investors	We hold financial results briefings (quarterly) and one-on-one briefings for specific topics (as necessary). We also hold approximately 160 individual IR meetings annually, seeking to achieve sustainable growth and higher corporate value on a medium- to long-term basis.	Yes
Regular briefings for overseas investors	Since FY 2012, the CEO has led visits to institutional investors in Europe to regularly meet with them one-on-one and furnish explanations on overall business activity, our medium-term management plan and its progress. Visits have come to include U.S.A. (since FY 2013) and Asian countries (since FY 2016, by our IR Department) as well. Also, one-on-one meetings are held as needed for overseas investors when they visit Japan. In FY 2021, we continued meetings with overseas investors, conducting them online instead of in person.	Yes
Posting of IR materials on website	We upload materials including our management philosophy, target business objectives, medium-term management plan, and statutory and voluntary disclosure materials such as notices for the general meeting of shareholders (Japanese with English summary), securities reports, quarterly reports, financial results reports (Japanese and English), annual integrated reports (Japanese and English), information releases (Japanese and English) and financial results briefing materials (Japanese and English). Through our website we also operate an e-mail service offering IR information and updates including financial summaries and press releases to interested parties, and actively respond to IR-related questions from individual investors.	
Establishment of department and/or manager in charge of IR	We have established the IR Department as a dedicated department for IR. See section I [Principle 5.1] for details.	

3. Measures to ensure due respect for stakeholders

	Supplementary explanation
Stipulation of internal rules for respecting stakeholders	<p>We have laid down in our corporate values (SATO Values) that the Company's 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." We also set forth in our Credo to share the returns from our business with our four stakeholders (shareholders, employees, society and the company), using this idea toward strengthening our relationships with each stakeholder and improving our corporate/business value.</p>
Implementation of environmental activities, CSR activities, etc.	<ul style="list-style-type: none"> •We believe that sustainability is inseparable from our core business in auto-ID solutions, as our corporate mission is to "contribute towards a better and more sustainable world." Sustainability, for us, consists of activities that concern CSR, meet ESG standards and support SDGs, which we will drive as we contribute to society through our business. Information about our sustainability activities and more can be found on our website. (www.sato-global.com/sustainability/) •With the Sustainability Promotion Committee leading our environmental activities, we actively develop environmentally friendly products on top of implementing the ISO14001-based environmental management system throughout the company. •In December 2012, we became the first company in the Japanese label industry to obtain the Carbon Footprint of Products certification which allows us to display how much CO₂ a product emits over its life cycle. •In 2014, we began participating in the Forest of Companies project as part of the Pollenless Forestation campaign organized by the Tokyo Development Foundation for Agriculture, Forestry, and Fisheries. We sponsor pockets of forestland in the Tokyo cities of Ome and Akiruno, and carry out weeding and other conservation activities there on a yearly basis. In October 2016 and May 2020, we were certified as a contributor to the Tokyo forestation program by the Agriculture, Forestry and Fishery Division of the Tokyo Metropolitan Government's Bureau of Industrial and Labor Affairs. •Amid the pandemic in 2020, we continued activities to help people live their daily lives with greater peace of mind by offering solutions for workplace temperature screening (to prevent virus transmission), supporting contactless self-maintenance for printers and donating awareness stickers to elementary and middle schools in Japan.
Formulation of policies on providing information to stakeholders	See section I [Principle 3.1] for details.

	Supplementary explanation
Others	<ul style="list-style-type: none"> • Under our Vision to be "the customer's most trusted partner for mutual growth, and always essential in an ever-changing world," we pursue globalization and maximization of customer value, and make promoting diversity part of our business strategies in keeping with our corporate motto of Ceaseless Creativity. We will endeavor to respect individual differences and strengths as we generate innovative ideas to stay competitive in the global marketplace and continue to evolve our business to better address the diverse values and needs of customers around the world. • We are also focusing efforts on driving the active engagement of female employees, which involves creating a workplace environment that is complete with supporting systems and allows all to work with peace of mind while maintaining work-life balance even with maternity, childcare and other commitments. We currently have two women among our five external directors, one woman among our two external Audit & Supervisory Board member and three women (of whom one is non-Japanese) among our 15 (if including those concurrently serving as directors) executive officers. In addition, we take part in the Japanese government's call to action on male business leaders to create "A Society in Which Women Shine," and have declared to drive diversity further through women empowerment. • In July 2015, we launched a full-scale wellness management scheme to improve the health of employees in line with our positioning of promoting employee health as part of our business management strategies. This effort has won us Health and Productivity Stock recognition (Japan) in 2017 and Certified Health & Productivity Management Organization recognition (Japan) for six consecutive years from 2017 to 2022. • We have Teiho, our very own system introduced in 1976 for employees to write short daily reports (within a set word count) about their ideas or suggestions to better the Company, and submit them directly to top management. This is an important system that gets all employees involved in running the Company, and we will utilize and keep on improving it to help us fulfill the expectations of our stakeholders.

IV. Matters related to internal control

1. Basic views and systems regarding internal control

As a business, we aspire to solve challenges and create new value for customers operating in various types of worksites, industries and markets around the world. We believe it is important that proper internal control systems are established and consistently implemented for both frontline operations and organizational-level leadership so as to realize our corporate social responsibility and grow sustainably. Our board of directors will regularly review how internal controls are operating to identify areas of improvement and help them function as effectively as possible.

(1) Internal control policy

(i) System to ensure the execution of duties by directors and employees of the holding company complies with laws, regulations and the Articles of Incorporation

a. Corporate governance

We seek to achieve effective corporate governance for shareholders and other stakeholders by enhancing our board of directors in terms of its supervisory functions (through close collaboration between the board's chair and Audit & Supervisory Board members) and monitoring/oversight (with the appointing of independent external directors for a high standard of transparency).

Our Audit & Supervisory Board shall be independent in checking on duties delivered by directors, while our Group Governance Department shall support the development of internal rules and run/manage them accordingly to ensure different departments comply with laws, regulations and the Articles of Incorporation.

b. Compliance

We have defined the Mission, Vision and Credo of the company, which we refer to as "SATO Values," to provide direction for the actions of our directors and employees. In line with these values, we shall leverage Teiho, the company's very own knowledge management system, to maintain and enhance a transparent framework that lets all employees participate in business management based on our culture of information sharing and reporting.

Besides making our compliance systems more comprehensive for us to catch and keep up with regulatory changes, we shall also establish points of contact for all employees to report any potential compliance violations.

Each department in the company is subject to audits by our internal audit function that shall check for compliance with internal rules and the Articles of Incorporation.

(ii) System to store and manage information concerning the execution of duties by directors

Minutes of important meetings and records of important resolutions shall be stored and managed properly according to document control standards and internal approval processes. We shall build a company-wide framework to manage information assets appropriately and securely, starting with laying down internal rules that address information confidentiality and different security classifications/requirements.

We will also establish an in-house system enabling the accurate and timely disclosure of company information.

(iii) System to manage the risk of loss at the holding company

Our Business Review Committee, which reports directly to the Senior Executive Management Meeting (highest decision-making authority within the company's business execution function), shall be responsible for analyzing and monitoring risks that the company would take in driving business. The committee will submit advice to the board and the said meeting to facilitate thorough deliberations for prompt and judicious decision-making on business management.

As for other general risks we must avoid or mitigate in our business operations, the Risk Management Committee shall meet regularly to help manage such risks and minimize losses at the group level. This committee will identify risks, determine preventive measures to hedge risks, decide on how to deal with risks, and lead a crisis management team if necessary to work out possible responses should major risks occur or become likely to occur.

(iv) System to ensure the efficient execution of duties by directors of the holding company

We shall make clear the segregation of duties for directors and executive officers, scope of work for different departments, and chain of command within the company. Rules shall also be set for internal authorization and decision-making. Board meetings shall be used for important matters governed by board regulations. If such matters concern overall business management, they will either be reviewed by the Senior Executive Management Meeting before submitting to the board for approval or reported to the board after the said meeting has reached a decision. The Senior Executive Management Meeting is chaired by a non-executive internal director and attended by senior executives comprising our CEO, vice presidents and other C-suite officers. Decisions made by board directors or senior executives at their meetings shall be executed separately by the Executive Officers Meeting. Other committees set up under the Senior Executive Management Meeting/Executive Officers Meeting may also be involved in discussions or providing reports depending on the nature of matters.

As the SATO Group has administered a medium-term management plan formulated under a long-term basic strategy, the progress of corresponding action plans shall be monitored regularly. Senior management and key group company heads shall share information and work closely on the achievement status of the medium-term plan.

(v) System to ensure proper operations across the holding company and subsidiaries

a. System for management members of subsidiaries to report matters concerning the execution of their duties to the holding company

Our group companies undertake agreements concerning company management that require their managing members to report financial conditions/results and other important business matters regularly to the holding company, which shall make decisions as necessary in accordance with subsidiary management rules and other internal regulations.

b. System to manage the risk of loss at subsidiaries

The Business Review and Risk Management committees (as mentioned in (iii) above) shall also serve to review and prevent risks for our group companies.

c. System to ensure the efficient execution of duties by management members of subsidiaries

Subsidiary management rules shall be established to govern the appointment of managing members/ departments for our group companies. These members/departments shall follow internal rules to manage or advise on the management of group companies, and in principle, have directors or Audit & Supervisory Board members visiting from the holding company to ensure proper company operations. We also put in place a second line of responsibility (comprising second-line managers at overseas group companies and finance & accounting, governance and other functions at the holding company that set the standards for management control) at the group level to effectively support and exercise stronger checks and balances on sales and other operational divisions at different group companies.

d. System to ensure the execution of duties by management members and employees of subsidiaries complies with laws, regulations and the Articles of Incorporation

The authority of the Group Governance Department and internal audit function also extends to our group companies, which shall follow the same set of internal controls for compliance (SATO Values, Teiho system, and points of contact for whistleblowing) mentioned in (i) above.

(vi) System to ensure reliability of financial reports

The company's representative director(s) shall order the implementation of internal controls to ensure reliable financial reporting pursuant to the Japanese Financial Instruments and Exchange Act. Our Group Governance Department shall support and provide advice on the development of the necessary rules, which will be assessed continuously for readiness and effectiveness by our internal audit function.

(vii) Matters concerning staffing requests from the Audit & Supervisory Board and the independence of these requested staff

The company shall discuss and decide on assigning employees to assist the Audit & Supervisory Board in their auditing duties when needed. Transfers, performance evaluations or other personnel-related actions for employees assisting the Audit & Supervisory Board shall be decided respecting the opinion of the same board to ensure their independence from directors and executive officers. These employees

shall follow the instructions and directions of Audit & Supervisory Board members when assisting with auditing duties.

(viii) System for reporting to the Audit & Supervisory Board

Directors and employees shall report promptly on matters pertaining to their work when requested by the Audit & Supervisory Board. If there are any known risks that could materially affect or impair the company's interests, they shall be reported to the board immediately.

The same board shall also receive internal whistleblowing reports regularly from the department in charge and audit results from our internal audit function as set out by internal audit rules.

Individuals disclosing information to the Audit & Supervisory Board shall be protected from retaliation, and their disclosed information be handled and managed appropriately by the board.

(ix) Other frameworks to ensure effective audits by the Audit & Supervisory Board

Audit & Supervisory Board members shall be able to attend important in-house meetings (in addition to board of directors meetings) to listen to deliberations of key matters and reports concerning the execution of duties by the company's directors and employees. They can also peruse meeting minutes and records of important resolutions.

The Audit & Supervisory Board, authorized to audit all group companies freely, shall meet the board of directors regularly to exchange views regarding matters such as company/audit issues and support needed for auditing duties.

Audit expenses shall be budgeted annually to a certain amount, and payment claims from Audit & Supervisory Board members shall be processed promptly to facilitate their work.

(x) Basic views and frameworks for eliminating anti-social forces

The company shall act in accordance with laws and not yield to anti-social forces, taking a resolute stance in refusing any relationships with them by establishing necessary internal rules as part of our corporate social responsibility. We shall set up a department that manages our responses to anti-social forces and collect information from related government agencies and external specialists. We will work closely with these parties as we conduct thorough in-house education to ensure that issues concerning anti-social forces are dealt with quickly.

(2) Internal control activities

The following describes our internal control activities in FY 2021. We will monitor how our internal controls are operating and keep improving them in terms of relevance and effectiveness.

(i) Managing risks

The Business Review Committee (established under the Senior Executive Management Meeting in April 2021) met 11 times to examine and analyze risks the company takes in conducting business when making major R&D investments, procuring loans or acquiring fixed assets. The committee helped improve the quality of deliberations for decision-making at the Senior Executive Management Meeting by submitting proposed resolutions (from in-house business owners) together with its recommendations.

Meanwhile, the Risk Management Committee met 12 times, discussing and reporting on actions to prevent the occurrence/recurrence of risks primarily related to natural disasters, cybersecurity threats, and failure to comply with product safety standards or different laws/regulations. In the same fiscal year, our COVID-19 countermeasure office (established under the Risk Management Committee in January 2020) also continued its activities to plan and execute various measures to prevent/contain the virus while considering government directives and in-house/community infection rates.

(ii) Enforcing compliance

To help employees understand the company's Credo and apply these beliefs to their actions, we continued group-wide activities to promote SATO Values in FY 2021. Also, through the Teiho system that we have had in place since 1976, we collected more than 480,000 suggestions/reports on new ideas our global employees derived from daily work, and feedback they gathered from customer interactions over the year. Besides allowing employee input to be incorporated quickly into decision-making at the top level, Teiho has also come to serve as an important system that contributes toward a corporate culture of compliance.

We also have a Disciplinary & Anti-harassment Committee that discloses to employees compliance failures as and when they occur, calling their attention to prevent such recurrence.

(iii) Governing the management of subsidiaries

With the support of the Group Governance Department as well as managing members/departments and visiting directors/Audit & Supervisory Board members at our group companies, we receive monthly sales activity updates and yearly business reports to manage and oversee the readiness and effectiveness of our corporate management infrastructure.

As part of proper governance, group companies are also required to consult headquarters in advance about important business execution matters, based on our internal authorization matrix.

To strengthen governance, we also assessed the situation at our overseas group companies and engaged them in discussions starting FY 2020 to formulate different rule templates deemed essential for group governance, which we are working to introduce/implement gradually in line with their various situations. In FY 2020, we put in place a second line of responsibility at the group level (based on the "Three Lines of Defense" model) and started holding global second line meetings to effectively support and exercise stronger checks and balances on sales and other operational divisions at different group companies. We also take actions to strengthen our internal audit function serving as the third line of responsibility, particularly in terms of monitoring the management of our overseas group companies.

(iv) Storing/handling information

We drive the proper management of information assets throughout the company via the Information Assets Management Committee set up under the Risk Management Committee. The committee has kept departments responsible for stocktaking personal information they hold and analyzing related risks to review their storing/handling of internal information assets, which was first started in FY 2019.

Based on the information security policy formulated in FY 2020, we continued to govern the management of information assets across the SATO Group, ensuring that security measures and account/access control methods are in place to keep information systems safe throughout their development, implementation and maintenance. In view of ever-rising cybersecurity risks, we also created an overseas version of the guidelines on handling information security incidents and worked to educate our overseas group companies accordingly. At the group level, efforts are also made to promptly investigate the cause of information security incidents when they happen to plan and roll out actions that prevent their recurrence.

(v) Ensuring effectiveness of the Audit & Supervisory Board

Reports to the Audit & Supervisory Board were made timely as always, facilitating effective audits. We also created opportunities for the board's members to meet directors or sit in on the Senior Executive Management Meeting where they were free to exchange opinions with other counterparts.

V. Other

1. Implementation of anti-takeover measures

Implementation of anti-takeover measures	No
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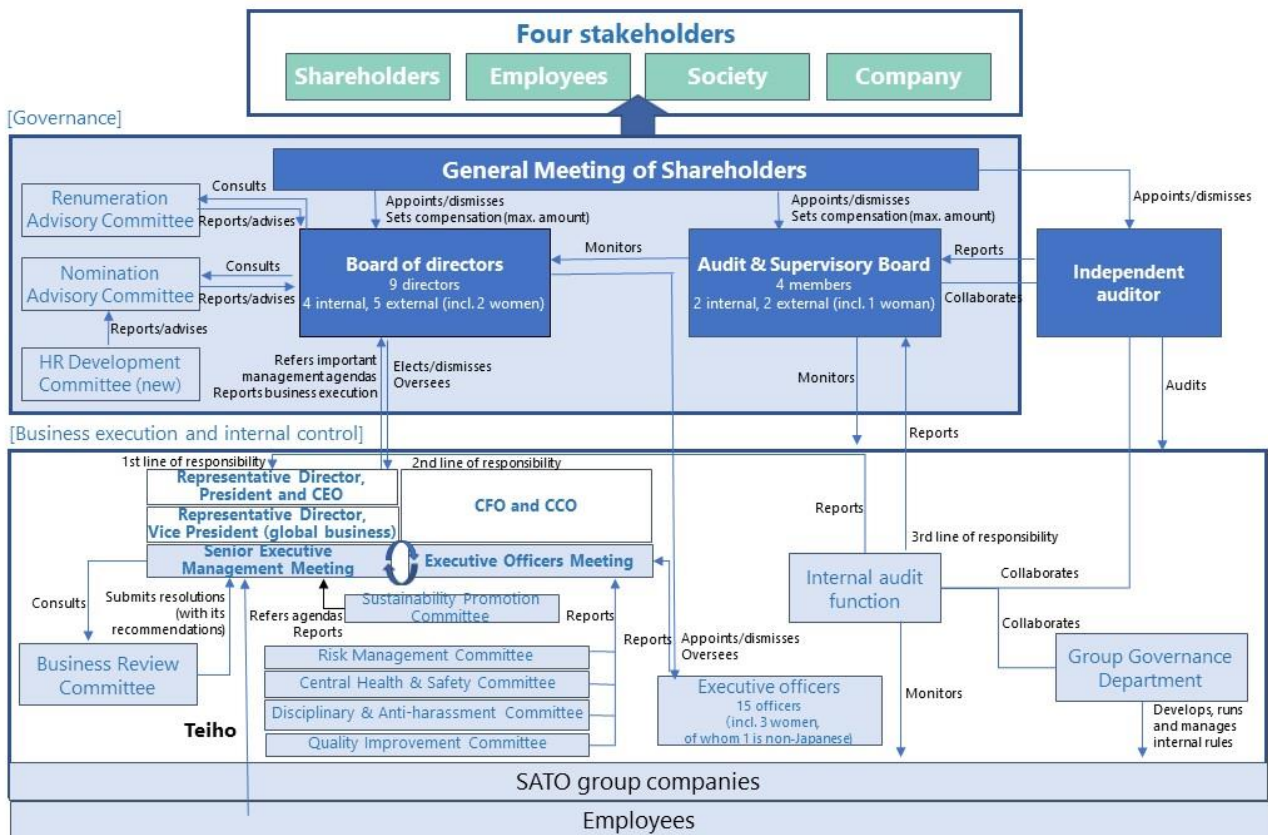
Supplementary explanation

At this point in time, the Company has no plans to implement anti-takeover measures.

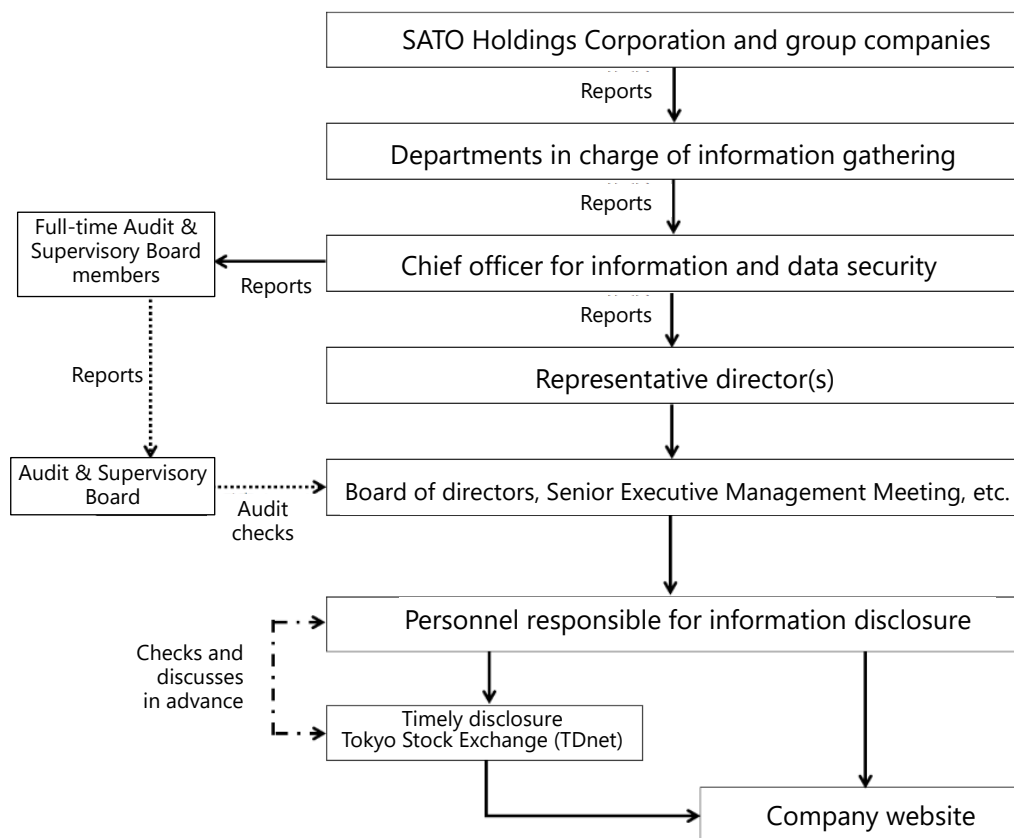
2. Other matters concerning our corporate governance system

[Corporate governance framework]

For details about the functions pictured below, please refer to our website.
www.sato-global.com/about/governance/governance.html



[Internal system for timely disclosure of company information]



Overview:

Aiming to maximize corporate value on a medium- to long-term basis and to become the customer's most trusted partner, our basic stance on information disclosure is to engage in constructive dialogue with stakeholders including shareholders, investors, and local communities to disclose information with consistency, continuity, speed, fairness and transparency.

We strive to achieve fair, timely and appropriate disclosure of information that can be used by stakeholders to understand our company properly while complying with laws/regulations and the timely disclosure rules of stock exchanges.

(1) Information related to decisions made

Information of this nature is gathered by and contained within our general affairs and group governance departments. The Company and its group companies check for any information that requires disclosure based on timely disclosure rules and other applicable laws/regulations, and report them accordingly to the representative director(s) or Senior Executive Management Meeting through the CFO, who is also the chief officer for information and data security. Resolutions are passed by the board of directors where necessary, and the information is then disclosed immediately.

(2) Information related to occurring facts

Based on internal rules, information of this nature is reported by executive officers in charge, or the management of the relevant group companies, to the representative director(s) or Senior Executive Management Meeting through the CFO, who is also the chief officer for information and data security. Any information subject to the timely disclosure rules and other applicable laws/regulations is then disclosed immediately.

(3) Information related to financial performance

Information of this nature is prepared by each consolidated company and compiled into a final financial report by our finance & accounting department which is then disclosed immediately upon approval by the board of directors.