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SATO HOLDINGS CORPORATION
Ryutaro Kotaki, President and CEO
Contact: Yoichi Abe, Director, Vice President and Chief Financial Officer (CFO)
Securities Code: 6287
http://www.sato.co.jp/

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 Updated

We aim to realize sustainable growth and higher enterprise value on a medium- to long-term basis under our vision of becoming "the leader and most trusted company in the Auto-ID solutions industry worldwide, exceeding customer expectations in an ever-changing world." We believe that building and continuously strengthening our corporate governance system to support these aims is critical to ensuring the soundness, transparency, and efficiency of our management.

As the foundation of this system, we seek to achieve effective corporate governance for our shareholders and other stakeholders by enhancing the functionality of our Audit & Supervisory Board and the management oversight of our Board of Directors which is structured to constitute a majority of Independent External Directors for a high standard of transparency.

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

[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 which they should be free to tap to provide valuable input without conforming to others, the Company does not appoint a lead independent external director.

[Supplementary Principle 4.10.1 Establishment of Nomination & Remuneration Advisory Committees]
The Company has previously had nomination and remuneration advisory committees chaired by Independent External Directors to provide their recommendations for deliberation by the Board of Directors. However, our Board of Directors is already comprised in majority of Independent External Directors from diverse backgrounds who are capable of offering their involvement/advice as appropriate when reviewing matters related to nomination or remuneration.

The Board of Directors has decided and agreed that skipping unnecessary processes to directly discuss related matters among Board members helps add more speed/perspectives to its discussions and make the Board a stronger function. Instead of establishing committees for nomination and remuneration, the Company will, therefore, make the Board of Directors responsible for reviewing matters such as the appointment and professional development of executives and directors as well as their incentives in a systematic manner.

[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 the General Meeting of Shareholders and Securities Report.

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

[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 enterprise 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 1% of the Company's capital 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 enterprise value of the investee company will subsequently grow over the medium- to long-term.

[Principle 1.7 Related party transactions]

When Directors and Audit & Supervisory Board members engage in business transactions with related parties, they must obtain prior approval from the Board of Directors according to Board regulations, and report their 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, all Directors are required to submit written confirmation regarding their execution of business to the Audit & Supervisory Board every year, and report their involvement in related party transactions if any.

[Principle 3.1 Full disclosure]

(1) We make our management philosophy, target business objectives, and Medium-term Management Plan available to the public via our website and Integrated Report.
(Management philosophy)
http://www.satoworldwide.com/sato-group/management-philosophy---ceaseless-creativity.aspx
(Management objectives, Medium-term Management Plan)
http://www.satoworldwide.com/investor-relations/management-policy/mid-term-management-plan.aspx

(2) We make our basic views on corporate governance available to the public via our website, Securities Report and Integrated Report.
(Basic views on corporate governance)
http://www.satoworldwide.com/investor-relations/management-policy/corporate-governance.aspx

(3) We provide information on the remuneration policies of our Directors and Executive Officers under "Presence of policy for determining remuneration amounts or calculation methods" in section II.

(4) We set the term of office for Directors and Executive Officers to be one year, with our Representative Director selecting candidates for the former, and Internal Directors evaluating appointment, reappointment and dismissal of the latter, according to their roles and responsibilities fulfilled during the year. To ensure oversight and transparency, these nominations/performance evaluations are submitted to the Board of Directors which is comprised in majority of Independent External Directors for decision-making..

(5) Reasons for the individual appointments of Directors and Audit & Supervisory Board members are provided in the reference documents for the General Meeting of Shareholders.

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

To exercise oversight of decision-making on important management-related matters and business execution by each Director/member of senior management, the Board of Directors clearly specifies matters stipulated by laws/regulations and the Articles of Incorporation, and important matters related to business strategies and management plans, as matters for discussion in the Board for which board regulations apply. Authority over the execution of other business operations is delegated to the Executive Management Meeting and Executive Officers according to the Company's rules of authorization.

[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 enterprise value on a medium- to long-term basis, named its first External Director in 1999, and has appointed multiple individuals to the role since 2002. Given the growing importance of such governance practices, our Board of Directors is now comprised in majority of External Directors, all of whom are registered as Independent External Directors with the Tokyo Stock Exchange. All six selected External Directors (of which two are women) have expert knowledge and extensive experience in diverse fields to support our aims in realizing sustainable growth and higher enterprise value on a medium- to long-term basis.

[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 and long-term basic strategy, and are appointed as Independent External Directors according to the independence guidelines set by stock exchanges. Independent External Directors are required to possess sufficient knowledge and experience to ensure that decisions made by the Board of Directors are legitimate and logical. They should also be capable of furnishing advice, proposals and opinions that are aligned with the common interests of our shareholders from an independent and impartial standpoint.

[Supplementary Principle 4.11.1 Policies and procedures for appointing Directors]

The Board shall be comprised of Directors representing a broad range of professional backgrounds and perspectives so that it can draw on their diverse ideas, opinions and values. Internal Directors (five appointed at present) shall be experienced in executing different business operations, while External Directors (six appointed at present) be highly independent with extensive experience and expertise not directly related to the Company's business.

[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 to assess, for example, the composition of the Board, its operations, roles/responsibilities, support system, and relationship with shareholders, collating and analyzing the results for discussion at board meetings. Evaluation results showed that the Board, with External Directors raising questions and opinions freely in constructive discussions, is functioning better than ever and maintains its effectiveness in making important management decisions and supervising business execution.

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.

[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 Accounting

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 enterprise 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 (twice annually) 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, making efforts to reflect their 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 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.

2. Capital Structure

Foreign shareholding ratio	More than 30%

[Status of major shareholders] Updated

Name	Number of Shares Owned	Percentage (%)
Japan Trustee Service Bank, Ltd. (Trust account)	4,857,600	13.91
Sato Yo International Scholarship Foundation	3,786,200	10.84
The Master Trust Bank of Japan, Ltd. (Trust account)	1,502,500	4.30
Government of Norway	1,383,794	3.96
SATO Employees' Stockholding	1,170,934	3.35
Goldman, Sachs & Co. Reg	1,052,800	3.01
Mieko Yokoi	900,145	2.57
Shizue Sato	897,470	2.56
Arena Co.	854,460	2.44
Mari Iwabuchi	794,570	2.27

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

Supplementary explanation Updated

1. A Report of Possession of Large Volume made available for public inspection on November 4, 2015, indicated that Dalton Investments LLC owns the following number/ratio of our issued shares as of October 30, 2015. This information is not included in the above list as we are unable to verify their actual shareholding as of the end of the fiscal year under review.

   Name: Dalton Investments LLC
   Address: 1601 Cloverfield Blvd., Suite 5050N, Santa Monica, CA 90404 USA
   Ownership: 1,896,200 shares
   Shareholding ratio: 5.43%

2. A Report of Possession of Large Volume made available for public inspection on May 31, 2017, indicated that Norges Bank owns the following number/ratio of our issued shares as of May 25, 2017. This information is not included in the above list as we are unable to verify their actual shareholding as of the end of the fiscal year under review.

   Name: Norges Bank
   Address: Bankplassen 2, P.O. Box 1179 Sentrum, N-0107 Oslo, Norway
   Ownership: 1,749,400 shares
   Shareholding ratio: 5.01%

3. Corporate Attributes

Listed stock market and market section	Tokyo Stock Exchange, First Section

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	From ¥100 billion to less than ¥1 trillion
Number of consolidated subsidiaries as of the end of the previous fiscal year	From 50 to less than 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

[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 Updated	Directors who do not execute business
Number of Directors Updated	11
Appointment of External Directors	Yes
Number of External Directors	6
Number of External Directors designated as independent officers Updated	6

External Directors' relationship with the Company (1) Updated

Name	Attribute	Relationship with the Company*										
		a	b	c	d	e	f	g	h	i	j	k
Ken Suzuki	Corporate (External)											
Yuko Tanaka	Academic											
Ryoji Itoh	Corporate (External)											
Mitsuaki Shimaguchi	Academic											
Hideo Yamada	Attorney at law											
Chieko Matsuda	Academic											

* Categories for "Relationship with the Company"
* "○" when the director presently meets or has recently met the category;
"△" when the director had met the category in the past
* "●" when a close relative of the director presently meets or has recently met the category;
"▲" when a close relative of the director had met the category in the past

a. Executive of the listed company or its subsidiary
b. Non-executive director or executive of the parent company of the listed company
c. Executive of a fellow subsidiary of the listed company
d. Party whose major client or supplier is the listed company or an executive thereof
e. Major client or supplier of the listed company or an executive thereof
f. Consultant, accounting professional or legal professional who receives a large amount of monetary consideration or other property from the listed company besides compensation as its director
g. Major shareholder of the listed company (or an executive of the said major shareholder if it is a corporation)
h. Executive of a client or supplier (which does not correspond to any of d., e., or f.) of the listed company (Applies only to the director him/herself)
i. Executive of a company with which the listed company agrees to appoint external directors to each other (Applies only to the director him/herself)
j. Executive of a company that receives contributions from the listed company (Applies only to the director him/herself)
k. Others

External Directors' relationship with the Company (2) Updated

Name	Independent officer	Supplementary explanation	Reasons for appointment
Ken Suzuki	Yes	Chairman of Vital KSK Holdings, Inc.	[Reasons for appointment as External Director] To apply his extensive experience and broad insights as a corporate manager to management of the Company's business. [Reasons for designation as independent officer] Mr. Suzuki 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, we deem him capable of fulfilling his expected responsibilities as a separate function from business execution primarily undertaken by Representative Directors, meeting our standards for independent and effective corporate governance.
Yuko Tanaka	Yes	President and Chief Trustee of Hosei University Professor at the Department of Media and Communication Studies, Faculty of Social Sciences, Hosei University Professor at International Japanese Studies Institute (graduate school), Hosei University	[Reasons for appointment as External Director] To apply her extensive experience and broad insights as president and professor of a university to management of the Company's business. [Reasons for designation as independent officer] Ms. Tanaka 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, we deem her capable of fulfilling her expected responsibilities as a separate function from business execution primarily undertaken by Representative Directors, meeting our standards for independent and effective corporate governance.
Ryoji Itoh	Yes	Representative Director of Planet Plan Co., Ltd. Project Professor at the Graduate School of Media and Governance, Keio University	[Reasons for appointment as External Director] To apply his extensive experience and broad insights as corporate manager and graduate school professor to management of the Company's business. [Reasons for designation as independent officer] Mr. Itoh 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, we deem him capable of fulfilling his expected responsibilities as a separate function from business execution primarily undertaken by Representative Directors, meeting our standards for independent and effective corporate governance.

Name	Independent officer	Supplementary explanation	Reasons for appointment
Mitsuaki Shimaguchi	Yes	Professor Emeritus of Keio University President of Japan Marketing Association	[Reasons for appointment as External Director] To apply his professional knowledge and extensive experience in the marketing field and his broad insights as a university professor to management of the Company's business. [Reasons for designation as independent officer] Mr. Shimaguchi 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, we deem him capable of fulfilling his expected responsibilities as a separate function from business execution primarily undertaken by Representative Directors, meeting our standards for independent and effective corporate governance.
Hideo Yamada	Yes	Attorney at law President of Yamada & Ozaki Law Office Chairman of Akiko Tachibana Memorial Foundation	[Reasons for appointment as External Director] To apply his professional knowledge, extensive experience and broad insights as an attorney at law to management of the Company's business. [Reasons for designation as independent officer] Mr. Yamada 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, we deem him capable of fulfilling his expected responsibilities as a separate function from business execution primarily undertaken by Representative Directors, meeting our standards for independent and effective corporate governance.

Name	Independent officer	Supplementary explanation	Reasons for appointment
Chieko Matsuda	Yes	Professor at Graduate School of Social Sciences, Tokyo Metropolitan University Professor at Faculty of Urban Liberal Arts, Tokyo Metropolitan University Senior Researcher of Japan Association for Chief Financial Officers	[Reasons for appointment as External Director] To apply her global experience and achievements in foreign-affiliated companies as well as her professional knowledge and deep insights as a serving graduate school professor to management of the Company's business. [Reasons for designation as independent officer] Ms. Matsuda 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, we deem her capable of fulfilling her expected responsibilities as a separate function from business execution primarily undertaken by Representative Directors, meeting our standards for independent and effective corporate governance.

Presence of discretionary committee(s) equivalent to Nomination or Remuneration Committees Updated	Yes

Establishment and composition of discretionary committee(s), and attributes of the chairperson Updated

	Committee's name	Total committee members	Full-time members	Internal Directors	External Directors	External Experts	Others	Chairperson
Committee equivalent to Nomination Committee	Business Risk Committee	11	5	2	2	2	0	Internal Director
Committee equivalent to Remuneration Committee	–	–	–	–	–	–	–	–

Supplementary explanation Updated

Under our Basic Policy on Internal Control to ensure effective corporate governance and proper business operations, we have established a Business Risk Committee which reports directly to the Board of Directors to identify, analyze, and continuously monitor risks that the Company would take in driving business when making business investments and loans, acquiring and disposing of stock and fixed assets, entering into business partnerships or important agreements, and selling/buying businesses.

Chaired by the CFO and comprised of members who lead the Company's main departments, the Business Risk Committee is also attended by Independent External Directors, external certified public accountants, and attorneys at law when necessary to ensure it functions in an objective and professional manner. The committee conducts intensive analyses and evaluations on a case-by-case basis, and seeks to minimize risks and maximize returns when the Board of Directors is required to make important business decisions.

[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, Accounting Auditor and Internal Audit Department Updated

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

The Audit & Supervisory Board is briefed on audit plans with explanations about audit policies from the Accounting Auditor, and provided with quarterly audit/review reports which it uses as the basis for discussions and exchanges of opinion. The Board also attends site visits by Accounting Auditors when necessary to work with them closely.

For full-time members on the Board, they get explanations about internal audit plans from our Auditor Office (equivalent to Internal Audit department; reports directly to the Company's Representative Director), and regularly receive results of internal audits and internal control evaluations related to financial reporting. Besides attending internal audits by the Auditor Office when necessary to work with them closely, these members also share internal audit/evaluation results they have with external members on the same Board.

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) Updated

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

* Categories for "Relationship with the Company"
* "○" when the audit & supervisory board member presently meets or has recently met the category;
"△" when the audit & supervisory board member had met the category in the past
* "●" when a close relative of the audit & supervisory board member presently meets or has recently met the category;
"▲" when a close relative of the audit & supervisory board member had met the category 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 parent company of the listed company
d. Audit & supervisory board member of the parent company of the listed company
e. Executive of a fellow subsidiary of the listed company
f. Party or an executive thereof whose major client or supplier is the listed company
g. Major client or supplier of the listed company or an executive thereof

h. Consultant, accounting professional or legal professional who receives a large amount of monetary consideration or other property from the listed company besides compensation as its audit & supervisory board member
i. Major shareholder of the listed company (or an executive of the said major shareholder if it is a corporation)
j. Executive of a client or supplier (which does not correspond to any of f., g., or h.) of the listed company (Applies only to the audit & supervisory board member him/herself)
k. Executive of a company with which the listed company agrees to appoint external directors to each other (Applies only to the audit & supervisory board member him/herself)
l. Executive of a company that receives contributions from the listed company (Applies only to the audit & supervisory board member him/herself)
m. Others

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

Name	Independent officer	Supplementary explanation	Reasons for appointment
Takao Yamaguchi	Yes	Certified Public (Tax) Accountant Yamaguchi C.P.A. Office	[Reasons for appointment as External Audit & Supervisory Board member] To apply his professional knowledge and experience as a certified public (tax) accountant to management of the Company's business. [Reasons for designation as independent officer] Mr. Yamaguchi 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, we deem him capable of fulfilling his expected responsibilities as a separate function from business execution primarily undertaken by Representative Directors, meeting our standards for independent and effective corporate governance.
Noriko Yao	Yes	Attorney at law Partner of TMI Associates	[Reasons for appointment as External Audit & Supervisory Board member] To apply her professional knowledge, extensive experience and broad insights as an international attorney at law to management of the Company's business. [Reasons for designation as independent officer] Ms. Yao 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, we deem her capable of fulfilling her expected responsibilities as a separate function from business execution primarily undertaken by Representative Directors, meeting our standards for independent and effective corporate governance.

[Independent officers]

Number of independent officers	8

Matters relating to independent officers

- All of the Company's six 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, 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.

[Incentives]

Implementation of measures to provide incentives to Directors Updated	Performance-based stock compensation plan / stock option plan

Supplementary explanation Updated

The Company has adopted the following remuneration plan for Internal Directors and Executive Officers to reflect our long-term business performance in their remuneration and align their interests with those of shareholders, establishing a clearer connection between such remuneration and our business performance/shareholder value.

- Stock compensation-type stock option plan

<Past issuance of new stock acquisition rights>

- Date of allotment: July 29, 2013;
  1st Stock Compensation-type Stock Acquisition Rights of SATO Holdings Corporation;
  Number granted: 2,094 (10 shares of common stock per stock option at an exercise price of ¥1 per share)
- Date of allotment: July 29, 2014;
  2nd Stock Compensation-type Stock Acquisition Rights of SATO Holdings Corporation;
  Number granted: 1,620 (10 shares of common stock per stock option at an exercise price of ¥1 per share)
- Date of allotment: July 29, 2015;
  3rd Stock Compensation-type Stock Acquisition Rights of SATO Holdings Corporation;
  Number granted: 1,300 (10 shares of common stock per stock option at an exercise price of ¥1 per share)

The aforementioned stock compensation-type stock option plan for the Company's Directors, approved at the 63rd Annual General Meeting of Shareholders held on June 21, 2013, has been discontinued upon adoption of the following performance-based stock compensation plan that was approved at the recent 66th Annual General Meeting of Shareholders. Accordingly the Company shall no longer allocate new stock options going forward.

- Performance-based stock compensation plan

At the 66th Annual General Meeting of Shareholders held on June 21, 2016, approval was granted for the adoption of a new performance-based stock compensation plan (hereinafter the "Plan") in which the Company's Directors who concurrently serve as Executive Officers (excluding External Directors and Directors who do not reside within Japan (hereinafter the "Non-residents"); the same applies hereinafter) and Executive Officers (excluding Non-residents; the same applies hereinafter) (hereinafter collectively referred to as the "Directors, etc.") are issued or delivered (hereinafter collectively referred to as "Delivery, etc.") shares of the Company and converted equivalent cash amounts (hereinafter collectively referred to as "Company Shares, etc.") based on the degree of achievement of performance goals.

Amount and details of compensation in the Plan

1. Individuals subject to Delivery, etc. of Company Shares, etc. (Subjects of Plan):
   Directors, etc.
2. Effects of subject shares of the Company on the Company's aggregate number of issued shares:
   Maximum amount of money contributed by the Company:
   - A total of ¥600 million for five fiscal years.

   Maximum number of Company Shares, etc. to be acquired by Subjects of Plan, and method of acquisition:
   - Maximum points that can be allocated to Subjects of Plan shall be 60,000 points per year.
   - Number of shares equivalent to the maximum points shall be 60,000 shares per year or a total of 300,000 shares over five years.
   - Ratio of the maximum number of shares to the total number of shares issued (as of March 31, 2016) is approximately 0.85%.

   *Ratio of the number of shares per year to the total number of issued shares is approximately 0.17%.
   - Shares of the Company are acquired from the stock market or from the Company (disposition of treasury shares).
3. Method of calculating the number of Company Shares, etc. acquired by Subjects of Plan (Plan index):
   - Varies based on the employment position of the Subject of Plan and the Company's degree of achievement of performance goals (consolidated operating profit, etc.) for each fiscal year set forth in the Medium-term Management Plan, etc.
4. Timing of Delivery, etc. of Company Shares, etc. to Subjects of Plan:
   - After the completion of the trust period (every five fiscal years).
   - At the point when the Subjects of Plan leave their posts during the trust period (or when an Internal Director serving concurrently as Executive Officer or an Executive Officer switching to directorship lose both of their statuses of Internal Director and Executive Officer).
   - At the point when Subjects of Plan become Non-residents during the trust period.

Recipients of stock options	Internal Directors, employees

Supplementary explanation

Recipients are Directors (excluding External Directors) and Executive Officers.

[Director remuneration]

Disclosure of individual Directors' remuneration	No

Supplementary explanation Updated

Total remuneration of Directors in fiscal 2017 amounted to ¥229 million.

Presence of policy for determining remuneration amounts or calculation methods	Yes

Disclosure of policy for determining remuneration amounts or calculation methods

Remuneration of senior management consists of fixed monetary salary, compensation linked to single-year and long-term business performance, and other corresponding bonuses/benefits. What is included in an individual's remuneration at what proportion is determined based on the individual's position, while the proportion of each component to overall remuneration is set to ensure that interests of management personnel are in accord with those of shareholders. The proportions of remuneration paid in cash and as company's shares are also clearly stated to ensure that such remuneration acts as an incentive for senior management to perform their duties in a manner that generates profits for the Company going forward.
Management personnel are evaluated for their performance against individual targets set on the basis of performance indicators that have been determined by the company. To ensure oversight and transparency, these performance evaluations are submitted to the Board of Directors which is comprised in majority of Independent External Directors for making decisions on remuneration.

[Support for External Directors and/or External Audit & Supervisory Board members] Updated

- 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 of Directors Office and relevant departments furnish materials prior to board meetings, explaining details of agendas in advance where 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.

2. Matters on Functions of Business Execution, Audit/Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System) Updated

The Company employs an Audit & Supervisory Board system and an Executive Officer system that separate the managerial decision-making and oversight function from the operational execution function so as to expedite decisions on company management. Our Board of Directors currently has six External Directors among its 11 members who offer opinions and suggestions from an independent perspective to strengthen the Board's management oversight.

In order to also facilitate fair and equitable deliberations, the Board does not set hierarchical relationships among Directors, and rotates chairmanship among Directors (including External Directors) who do not concurrently serve as Executive Officers. Business execution across the SATO Group is discussed and decided by the Board of Directors for matters stipulated by laws/regulations and the Articles of Incorporation and matters of critical importance for business management, and by the Executive Management Meeting (comprised of Directors, Audit & Supervisory Board members, Executive Officers and other senior executives) for all other major matters.

3. Reasons for Adopting the Current Corporate Governance System Updated

We strive 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 achieve sustainable growth and higher medium- to long-term enterprise value. Currently, six (of whom two are women) of our 11 Directors are Independent External Directors. When the Board of Directors meets, members engage in active discussions and share information on business management issues, based on their expert knowledge and extensive experience in diverse fields. External Directors, non-executive Internal Directors, and Audit & Supervisory Board members also hold opinion exchange sessions as and when needed, following up on discussed issues where necessary to deliberate, report, and make suggestions within the Board of Directors to help solve them accordingly.

At the basis of these activities is Teiho (Original ideas, Innovations, and Proposals), 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. Employees feel a sense of involvement in running the company through these daily Teiho reports, and this also contributes to our corporate governance. In addition to our Board of Directors and Audit & Supervisory Board, we will continue efforts to achieve a strong and effective corporate governance system by maintaining and strengthening our bottom-up management through Teiho.

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

Updated

	Supplementary explanation
Early notification of General Meeting of Shareholders (convocation notice)	The Company sends out the Notice of the General Meeting of Shareholders at least three days ahead of the legal minimum notice period of two weeks. We will strive further to send early notifications.
Scheduling General Meetings 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 2018 was held on June 25.
Allowing electromagnetic voting	Since 2014, the Company has been using online voting for our General Meeting of Shareholders, accepting votes through electromagnetic means (personal computer, smartphone or other portable phone).
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 Updated

	Supplementary explanation	Explanation by representative
Creating and publishing of disclosure policy	In addition to our 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 in fiscal 2017, we have also been holding briefing sessions for individual investors some four times each year.	Yes
Regular briefings for analysts and institutional investors	We hold financial results briefings (twice annually) and one-on-one briefings as necessary. We also hold approximately 250 individual IR meetings annually, seeking to achieve sustainable growth and higher enterprise value on a medium- to long-term basis.	Yes
Regular briefings for overseas investors	Since 2012, the CEO has led visits to institutional investors in Europe to 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. and other countries as well, starting 2013.	Yes
Posting of IR materials on website	We upload materials including our management philosophy, target business objectives, Medium-term Management Plan, statutory and voluntary disclosure materials (Notice of the General Meeting of Shareholders, Securities Report, and Semiannual Report), financial results reports (Japanese and English), annual Integrated Reports (Japanese and English), information releases, and financial results briefing materials. 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 Office as a dedicated department for IR. See Section I [Principle 5.1] for details.	

3. Measures to Ensure Due Respect for Stakeholders Updated

	Supplementary explanation
Implementation of environmental activities, CSR activities, etc.	•The value our business provides our customers in ensuring accuracy and saving labor and resources is environmental in nature. With our Eco-management Committee leading the way, we also actively develop environmentally-friendly products and engage in environmental conservation activities on top of implementing the ISO14001-based environmental management system throughout our company. •From 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 to plant an area of forest in Ome City and carry out weeding and other conservation activities there on a yearly basis. •These contributions led us to receive certification in October 2016 on Forest Maintenance Support under the Tokyo Forest Action accreditation system operated by the Agriculture, Forestry and Fishery Division of the Tokyo Metropolitan Government's Bureau of Industrial and Labor Affairs. •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 CO_2 a product emits over its life cycle. •In the same year, our plant for barcode printers (R&D/production) and stickers/labels (production) in Kitakami City, Iwate Prefecture, was recognized as a four-star "Iwate Earth-friendly Business Site" by the local prefecture for its active measures in controlling CO_2 emissions to stop global warming. •Companies are inseparable from society and the natural environment, and this is why we make it our corporate social responsibility to contribute to society through our core business. We position CSR activities as actions that define how we interact with the environment and lay the path to sustainable growth for the company. See our website for details. (CSR activities) http://www.satoworldwide.com/csr.aspx
Formulation of policies on providing information to stakeholders	See Section I [Principle 3.1] for details.

	Supplementary explanation
Others	• Under our vision of becoming "the leader and most trusted company in the Auto-ID solutions industry worldwide, exceeding customer expectations in an ever-changing world," we make efforts to promote diversity as part of our business management strategies aimed at achieving globalization and maximization of customer value while keeping ourselves relevant and connected to 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 complete with supporting systems that allows all to work with peace of mind while maintaining work-life balance even with maternity, childcare and other commitments. Currently, two of our six External Directors, one of our two External Audit & Supervisory Board members, and two (both non-Japanese) of our 12 Executive Officers (excluding those concurrently serving as Directors) are female. In addition, we have taken part in the declaration signing for a call to action from the Japanese government urging male business leaders to create “A Society in Which Women Shine,” and will strive to drive diversity further through women empowerment. • In July 2015, we launched a full-scale wellness management scheme to improve the health of all employees in line with our positioning of promoting employee health as part of our business management strategies. • 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 brings 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

The SATO Group's Basic Policy on Internal Control is as follows:

1. System to ensure that the execution of duties by directors and employees of the Company and its subsidiaries complies with laws, regulations and the Articles of Incorporation

   Acting in line with our corporate values, we shall leverage Teiho, our very own knowledge management system, to maintain and enhance a transparent framework that involves the participation of all employees in business management based on our culture of sharing information and reporting. We shall also establish points of contact for group employees to report any potential compliance violations. The Company's Auditor Office shall conduct audits on group companies to ensure compliance with the Articles of Incorporation and internal rules.

2. System to store and manage information related to the execution of duties by the Company's directors

   Minutes of important meetings and records of important resolutions shall be stored and managed properly in accordance with document control standards and internal approval rules. We shall also establish an in-house system enabling the accurate and timely disclosure of company information.

3. System and supporting processes to manage the risk of loss at the Company and its subsidiaries

   The Business Risk Committee identifies, analyzes, and monitors risks that the Company would take in driving business, and the Board of Directors shall deliberate its reports to make prompt, appropriate decisions for business management.

   As for other general risks we must avoid in our business operations, the Risk Management Committee shall meet regularly to manage such risks across all group companies.

   The committee shall identify risks, determine preventive measures to hedge risks, decide on how to deal with risks, and take the central role in discussing the necessary responses should major risks occur or become likely to occur.

4. System to ensure the efficient execution of duties by directors of the Company and its subsidiaries

   We shall drive the understanding of and compliance with the Group's medium-term management plan that is formulated under a long-term basic strategy. The plan shall be translated into tangible strategies with their progress monitored regularly. Information on progress status shall be shared at meetings attended by the senior management of the Company and its key group companies to facilitate collaboration.

5. System for directors, employees who execute business operations, and persons who perform roles as stipulated in Article 598, Paragraph 1 of the Companies Act (or equivalent) at SATO Group's subsidiaries, to report matters concerning the execution of their duties to the holding company

   Group companies undertake agreements concerning company management that require them to report financial conditions/results and other important matters of business management regularly to the Company, which shall make decisions as necessary in accordance with subsidiary management rules and other internal regulations.

6. Matters concerning staffing requests from the Company's Audit & Supervisory Board

   We shall discuss and decide on assigning employees to assist the Audit & Supervisory Board in their auditing duties when needed.

7. Matters on ensuring the independence of the Company's Audit & Supervisory Board support staff and the effectiveness of instructions given to these staff

   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.

8. System for reporting to the Company's Audit & Supervisory Board

(1) System for reporting to the Audit & Supervisory Board—applicable to Directors and employees of the Company

The Company's Auditor Office has the power to audit all subsidiaries, and shall report auditing results to our Audit & Supervisory Board as necessary based on internal audit rules. Directors shall report promptly on matters pertaining to the execution of business operations when requested by Audit & Supervisory Board members.

(2) System for reporting to the Audit & Supervisory Board—applicable to members of SATO Group's subsidiaries, including directors, audit & supervisory board members, employees who execute business operations, persons who perform roles as stipulated in Article 598, Paragraph 1 of the Companies Act, any who are of equivalent responsibility, and any who receives reports from them

The Audit & Supervisory Board has the right to request directors or employees of the Company or its group companies to report to and provide explanation at its board meetings when necessary.

9. System to ensure fair treatment of members who report issues (as described in the preceding item) to the Company's Audit & Supervisory Board

We shall establish external points of contact for whistleblowers to adequately ensure their anonymity, and prohibit anyone from treating them disadvantageously. Any information reported shall be handled and managed by the Audit & Supervisory Board in an appropriate manner.

10. Matters concerning the processing of advance payment or reimbursement for expenses or payables resulting from the execution of duties by the Company's Audit & Supervisory Board

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

11. Other frameworks to ensure effective audits by the Company's Audit & Supervisory Board

Audit & Supervisory Board members can attend important meetings to listen to reports on the execution of business operations by the Company's Directors and employees, and at the same time, peruse meeting minutes and records of important resolutions. Also, the Audit & Supervisory Board has the authority to audit group companies freely.

2. Basic Views and Frameworks for Eliminating Anti-Social Forces

The SATO Group 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 regulations 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 shall work closely with these parties as we conduct thorough in-house education to ensure that issues concerning anti-social forces are dealt with as quickly as possible.

V. Other

1. Implementation of Anti-Takeover Measures

Implementation of anti-takeover measures	Not adopted

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

Overview of internal systems pertaining to timely disclosure of company information

Aiming to maximize enterprise value on a medium- to long-term basis and to become the most trusted company in the Auto-ID solutions industry worldwide, 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 contained within our General Affairs, Legal, and Corporate Planning 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 or Executive Management Meeting through the CFO who is responsible for information handling. 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 or Executive Management Meeting through the CFO who is responsible for information handling. 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.

SATO's corporate governance

