Corporate governance

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SATO HOLDINGS CORPORATION
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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 increase our 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. External directors provide strong and transparent management oversight, as we lay the necessary groundwork for effective governance to generate value for shareholders and all 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 nominate external members for board positions based on their ability 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]
The Company shall hold shares of other listed companies as cross-shareholdings only when they are strategically important and present prospects for sustaining or strengthening business dealings to increase medium- to long-term corporate value. In acquiring new cross-shareholdings or continuing existing ones, our board of directors reviews them from a medium- to long-term perspective, taking into account prospects and potential returns and risks. We shall sell shares under ownership when they are deemed unlikely to bring benefits, considering impacts on the stock market that may result. 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." Our aim is to promote sustainability, or by our definition, efforts related to CSR, ESG and SDGs, through 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, placed under the direct report of the Senior Executive Management Meeting and subsequently the Executive Officers Meeting in April 2022 and 2023 respectively, 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, manage human capital and preserve natural capital. In addressing these sustainability challenges, we discuss matters with external experts/organizations to seek their advice as necessary and check on such progress regularly at board of directors meetings via reports from the Executive Officers 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 key personnel]
In April 2021, the Company established a Nomination Advisory Committee, appointing an external director to its chair. This committee (merged with the Remuneration Advisory Committee as of June 2024) looks into increasing diversity as a top priority when discussing appointment of key employees and other nomination matters. Currently, we have two women among our external directors and Audit & Supervisory Board members, and four female executive officers 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. For FY 2023, 7.9 percent of our managers in Japan are women, 1.9 percent are non-Japanese and 64.9 percent are mid-career hires. We aim to raise the ratio of female managers to over 8.4 percent in FY 2025 and to over 10.0 percent in FY 2030. To support our board and senior management, we recognize that we must build systems that train key employees and ensure diversity, and are discussing the specifics through the HR Development Committee established under our Nomination & Remuneration Advisory Committee.
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 work 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.

Customers now need to tackle wider industry- and society-level challenges. As such, we have developed a medium-term management plan (for fiscal years 2024 through 2028) aimed at continually advancing tagging technologies and growing their potential over the long run through customer touch points and our core competency we call genbaryoku, to deliver solutions for entire supply chains and the circular economy. By cocreating value with customers and other market players, we believe we can expand our reach and provide better solutions toward realizing a more sustainable world. While our base business currently targets five specific markets (retail, manufacturing, food, logistics and health care), there are needs for tagging-based solutions in other fields too. We will explore how we can tap the strengths we have developed from our base business to take on new markets and industries.

Every region/country, 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 in the context of its region/country, we have honed our 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 globally 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) Human capital management

At the SATO Group, we see employees as one of our greatest assets and the source that sustains the added value we provide through our business model. For the HR activities and initiatives we manage which include recruitment, placement, training/development, performance appraisal, compensation & benefits, and workstyle innovation, we make sure to base them on the principles of mutual respect and diversity, and align them with our corporate values.

We believe in cultivating a culture of innovation to create customer value, address societal challenges and raise our company value sustainably. That's why we hone our competitive advantage of genbaryoku and put corporate values into practice to foster self-reliant and self-determining talent who are capable of thinking and acting autonomously to initiate changes in their daily work in line with our corporate motto of Ceaseless Creativity to contribute toward a better and more sustainable world.

Our process for building stronger human capital starts by empowering employees to create strong personal habits of taking on challenges and rejoicing in change through their daily work. Based on this first step, they can then leverage their proactiveness and inventiveness to think and act autonomously, which strengthens our genbaryoku at the company level in the next step. When each employee makes conscious efforts to pursue the individual and team traits expected of them, this promotes the exchange of diverse perspectives and values to spark innovation. We invest in human capital, hoping to infuse

innovation into our corporate culture as the last step.
This three-step process is based on various drivers (systems/activities that are closely connected to our business and HR strategies) and their motivators (inputs that support and encourage employees to be actively engaged in their work and workplace). The company and management provide opportunities for employees to develop their skills and capabilities and put them to use in a virtuous cycle to reinforce the first two steps.

(3) Investment in intellectual property
Patents, designs, trademarks, technical know-how and other intellectual assets created in the course of developing our tagging-based solutions are important business resources that help us stay competitive now and into the future. Our Intellectual Property (IP) Department, which reports directly to the Group CEO, manages all IP-related activities such as crafting and promoting an IP medium-term plan that aligns with the Company's medium-term business objectives and strategies. It also works closely with related departments and takes company-wide actions for creating intellectual assets that support our current business and its growth.
To advance tagging and deliver solutions that go beyond individual worksites to cover entire supply chains and the circular economy, we also actively develop intellectual assets supporting technological innovations that are strategic investments eyeing long-term growth. And by safeguarding and utilizing such assets that deliver new values for society, we aim to grow our business over the long term to increase our corporate value and contribute to a better and more sustainable world.
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) Response to 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) and started applying TCFD recommendations to our climate actions. Based on TCFD recommendations, we have been using the climate scenario analysis since FY 2021 to assess the impact of climate-related risks and opportunities on our business and financial positions and identify actions to manage these risks and opportunities.
As we believe that sustainability is inseparable from our business and position it as the cornerstone of company management, we tackle climate change by pursuing decarbonization through the value-added solutions we provide customers and through our own operations.
Our efforts for decarbonization are led by our Sustainability Promotion Committee, which is run under the direction of our Executive Officers Meeting (responsible for top-level decision-making) and the oversight of our board of directors. Members from corporate planning and key business divisions are also included in this committee to ensure we embed sustainability in our corporate/business strategies and better drive actions for addressing climate change and other sustainability priorities across the SATO Group.
Through the climate scenario analysis, we developed two views on the medium- and long-term future of our industry and key sectors our customers operate in. The first 1.5°C scenario aligned with the Paris Agreement presents substantial risks associated with rising raw material costs but also creates demand for reliable traceability systems, bringing huge opportunities for our business. The second 4.0°C "too little, too late" transition scenario carries physical and business continuity risks, which increase costs significantly for our operations. Actions we can take to manage risks include further cutting our greenhouse gas emissions, building a socially responsible procurement framework and strengthening business continuity planning. Possible actions for managing related opportunities, on the other hand, include developing and offering more eco-friendly products/solutions and expanding business for data collection or utilization. In view of these actions identified from the climate scenario analysis, we determined that we will be able to operate our business with resilience under both scenarios.
For risk management, our Sustainability Promotion Committee will take the lead to define climate-related risks and evaluate how they can impact our business and financial positions based on the latest input parameters. The committee will report its risk evaluations to the Executive Officers Meeting and the board of directors as necessary to ensure that processes for managing climate-related risks are

integrated into the Company's overall risk management. It will also collaborate with the Risk Management Committee to manage physical risks and draw up crisis countermeasures should such risks occur.
In our recent carbon neutrality declaration, we have pledged to halve group-wide Scope 1 and 2 greenhouse gas emissions from FY 2016 levels by FY 2030 and reach net zero by FY 2050 with plans to expand use of renewable energy and promote energy efficiency and conservation.
Details can be found on our website.
(Our actions in response to TCFD recommendations) www.sato-global.com/sustainability/tcfd/

[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 the executive team or individual executive officers including the Group CEO, according to the Company's rules of authorization and Executive Officers 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 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]
Our Business Review Committee, which reports to the Executive Officers Meeting, 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 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 increase 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 increasing 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 and executive 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. Each committee comprises three external directors, one non-executive internal director and one executive internal director.
In FY 2023, the Nomination and Remuneration Advisory Committees met three and five times respectively, discussing a wide range of topics (such as succession planning, diversity in key employees, and remuneration structure/standards) and providing reports to the board of directors.
Given that the two advisory committees handle nomination and remuneration matters which are interrelated, directors discussed combining them into one and decided to do so as of June 2024.

Advisory committee meetings

Date		Agenda/discussion topic
2023	Apr 11	Providing a direction for disclosing information about human capital management and on how to word these disclosures in the securities report and integrated report
	May 15	Checking that each officer has his/her individual achievements for FY 2022 assessed properly for deciding performance-based remuneration
	Jun 20 Jul 11	Setting KPIs for FY 2023
	Oct 4	Retirement of executive officers; measures for fostering key employees; leadership development program for overseas heads who are hired locally; action plan and measures for promoting diversity
2024	Jan 11	Appointing executive/senior officers for FY 2024
	Feb 9	FY 2024 remuneration standards and performance-based stock compensation metrics for executive officers; extension of Board Incentive Plan (BIP) Trust
	Mar 12	Setting executive officer remuneration for FY 2024

[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 2023 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 the pre-meeting session (on April 9, 2024) and board meeting (on May 15, 2024). According to the evaluation results, the board was generally found to have functioned effectively during FY 2023 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 Group 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 new FY 2024–2028 medium-term management plan with the FY 2030 vision to achieve sales of ¥200 billion, operating income of ¥21 billion, operating income ratio of 10.5 percent and ROIC (return on invested capital) of 10 percent. Under this plan, we will seek sustainable and effective growth overseas while working to restore profitability in Japan. We will also invest resources in Perfect and Unique Tagging, a form of tagging (i.e., physically attaching identifiers and status data to things and people) that we believe would achieve our 2030 vision and has high potential for growth and profit. By improving profit mix, we can develop an optimal business portfolio for growing profit steadily.
To ensure we pursue the greatest possible returns when taking certain risks in our investments, our Business Review Committee reviews investment proposals based on the WACC (weighted average cost of capital) benchmark of 7 percent in yen terms (or such equivalent in other currency) using a rational and multifaceted approach to facilitate deliberations and decision-making at the Executive Officers Meeting.

[Implementing management practices with consciousness of cost of capital and share prices]
(English disclosure provided)
Besides focusing on sales, operating income and operating income ratio targets from the FY 2024–2028 medium-term plan, we will also keep an eye on cash flow and EBITDA (earnings before interest, taxes, depreciation and amortization). As for capital efficiency, we aim to raise ROIC and keep it higher than the WACC in maximizing our corporate value. To that end, we will analyze and monitor risks that the company would take in driving business and make growth investments with projected returns higher than the WACC as part of our capital allocation plan.

[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. Our Executive Officers Meeting and Business Strategy Meeting will examine business strategies and related conditions prior to any such change.

2. Capital structure

Foreign shareholding ratio	20% to 30%

[Major shareholders]

Name	Shares owned	% to shares outstanding
The Master Trust Bank of Japan, Ltd. (trust account)	4,005,500	12.32
Sato Yo International Scholarship Foundation	3,786,200	11.65
Custody Bank of Japan, Ltd. (trust account)	2,118,500	6.52
SATO Employees' Stockholding	1,806,541	5.56
The Bank of New York 133612	1,486,100	4.57
Shizue Sato	897,470	2.76
The Bank of New York Mellon 140044	862,040	2.65
Mieko Yokoi	854,345	2.63
Mari Iwabuchi	794,570	2.44
Masako Fujita	653,360	2.01

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

Supplementary explanation

1. 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, 2024.

   Name: Baillie Gifford & Co
   Address: Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN, Scotland
   Ownership: 2,098,200 shares
   Shareholding ratio: 6.01%

2. A large-volume possession report publicly filed on August 21, 2023, indicated that Sumitomo Mitsui Trust Asset Management and one other joint holder own the following number/ratio of our issued shares as of August 15, 2023. This information is not included in the above list as we are unable to verify its actual shareholding as of March 31, 2024.

   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: 1,796,500 shares
   Shareholding ratio: 5.14%

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

[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	8
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
Ryoji Itoh	Corporate (External)											
Hideo Yamada	Attorney-at-law											
Sadayoshi Fujishige	Corporate (External)											
Yoshiko Nonogaki	Corporate (External)											
Hiroshi Nagumo	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
Ryoji Itoh	Yes	Representative Director, Planet Plan. Co., Ltd. External Director, H.U. Group Holdings Inc.	(i) To apply Mr. Itoh's extensive experience and broad insights as corporate manager and graduate school professor 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.
Hideo Yamada	Yes	Attorney-at-law President, Yamada & Ozaki Law Office Chairperson, Akiko Tachibana Memorial Foundation External Audit & Supervisory Board Member, Taiyo Chemical Industry Co., Ltd. External Director, Hulic Co., Ltd. External Director, Mikuni Corporation External Director, Yoshimoto Kogyo Holdings Co., Ltd.	(i) To apply Mr. Yamada's professional knowledge, extensive experience and broad insights as an 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.
Sadayoshi Fujishige	Yes	Special Advisor, Lion Corporation Chairperson, Japan Marketing Association External Director, Nitto Boseki Co., Ltd. External Director, TV Asahi Holdings Corporation External Audit & Supervisory Board Member, TV Asahi Corporation	(i) To apply Mr. Fujishige's extensive experience and broad insights as corporate manager 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 director's independence)	Reasons for (i) appointment as external director and (ii) designation as independent officer
Yoshiko Nonogaki	Yes	External Director, Nifco Inc. External Director, GS Yuasa Corporation	(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. (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.
Hiroshi Nagumo	Yes	Advisor, Terumo Corporation	(i) To apply Mr. Nagumo's extensive experience and broad insights gained from his leadership roles in a multinational corporation 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.

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

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 & Remuneration Advisory Committee	6	-	2	4	-	-	External director
Committee equivalent to Remuneration Committee	(As above)							

Supplementary explanation

As of June 21, 2024, our discretionary committee is made up as follows.

Nomination & Remuneration Advisory Committee
Chairperson: Sadayoshi Fujishige (external director)
Members: Ryoji Itoh (external director), Yoshiko Nonogaki (external director), Hiroshi Nagumo (external director), Hiroyuki Konuma (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	3

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, Executive Officers Meeting and Business Strategy 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 internal audit department as well to understand its audit plans and regularly receive 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, Asahi Net, Inc. External Director, JGC Holdings Corporation External Director, Arata 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 Auditor, Japan Federation of Land and House Investigators' Associations Auditor, The Japan–Korea Cultural Foundation Auditor, Japan Institute of Design Promotion	(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

Matters relating to independent officers

- All the Company's five external directors (of which one is 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)

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

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 three 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

Supplementary explanation

Total remuneration of directors in FY 2023 amounted to ¥242 million (inclusive of non-performance stock compensation and performance-based monetary and stock compensation).

Presence of a remuneration policy	Yes

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 with the board's approval.
(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) Remuneration structure shall be geared toward sustainable company growth and greater medium- to long-term corporate value, and resonate with the values of shareholders and other stakeholders.
(iii) The board shall comply with the remuneration determination process set out by its advisory committee for accountability, fairness and transparency.

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 who shall only receive fixed compensation and non-performance stock compensation, and Audit & Supervisory Board members, who shall only receive fixed compensation of an amount that is decided with their consensus to ensure their independence and objectivity.

The board's advisory committee sets out the following process to enable fair and transparent deliberations and review individual remuneration from multiple angles, including its consistency with the Company's remuneration policy. The board is required to follow this process as part of the remuneration policy.

Procedure to determining remuneration for executive directors/officers

Revise 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.
February 2022

↓

Conduct performance evaluation for most recent fiscal year
The representative director(s) shall assess officers based on business and individual achievements, and his/her assessment be discussed among internal directors for evaluation across multiple dimensions.
Every May

↓

Approve evaluation and decide 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

The board's advisory committee looks into not only the above process but also all other matters related to remuneration. In FY 2023, the committee held five meetings in total.

(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.
Directors, executive officers and senior officers also receive performance-based stock compensation paid through a Board Incentive Plan (BIP) Trust (since 2016), which does not count toward the annual maximum remuneration amount. This was approved at the shareholders meeting held on June 18, 2021 when nine directors were in office. Under the trust, the Company contributes a maximum of ¥500 million (inclusive of ¥25 million for external directors) for the delivery of a maximum of 180,000 shares of the Company's stock (inclusive of 9,000 shares for external directors) as board incentive for each three-year term.
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 is dependent on the achievement of individual objectives, serving as a reward and penalty mechanism for motivating officers to contribute to company growth through their respective roles and responsibilities. Performance-based stock compensation, 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 immediate results but also alignment with shareholder interests and the Company's capital efficiency for medium- and long-term growth. 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	
			Monetary	Stock
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 in FY 2023.

Position	Fixed compensation	Performance-based monetary compensation	Performance-based stock compensation	Stock compensation	Evaluation weight	
					Business achievement	Individual achievement
Representative Director and President	45%	35%	19%	1%	100%	-
Director and Vice President	62%	18%	17%	3%	50%	50%
Non-executive internal director	97%	0%	0%	3%	-	-
External director	93%	0%	0%	7%	-	-
Internal member of Audit & Supervisory Board	100%	-	-	-	-	-
External member of Audit & Supervisory Board	100%	-	-	-	-	-

(4) Breakdown of remuneration for board members (Figures for external officers indicated in parentheses)

Position	Total remuneration (Millions of JPY)	Remuneration components (Millions of JPY)				No. of eligible board members
		Fixed compensation	Performance-based monetary compensation	Performance-based stock compensation	Stock compensation	
Director	242	170	39	24	8	10
	(71)	(66)	(0)	(0)	(5)	(5)
Audit & Supervisory Board member	45	45	0	0	0	4
	(18)	(18)	(0)	(0)	(0)	(2)

(5) Total consolidated remuneration for individual 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

Not applicable

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 enhance auditing controls. We also have an executive system in place to separate operational functions from managerial decision-making and oversight functions to enable quicker decisions.

At the point of releasing this report, we have eight directors, complying with our Articles of Incorporation, which limit the number of directors to no more than 12. Out of these eight, two 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 FY 2023 with six directors attending in full. (For the remaining two directors, one attended 12 out of the 13 meetings while another was newly appointed to the board in June and only attended meetings conducted during his term of office, 10 in all.) At board meetings, matters stipulated by law and the Articles of Incorporation as well as important company matters governed by board regulations are brought up for discussion and review in a planned and comprehensive manner.

Since FY 2018, pre-meeting sessions have also been held to explain key agenda points and industry-specific sales strategies or engage non-executive directors in various discussions to deepen their understanding of the Company's business and operations.

In January 2020, we changed how the board is chaired, electing a non-executive internal director familiar with internal affairs rather than having 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.

In line with revisions made to Japan's Corporate Governance Code (CGC) in FY 2021, our board sought to focus more on deliberating important company matters and exercising oversight by delegating more authority to the executive team. Accordingly, we make and execute business decisions in our Senior Executive Management Meeting (chaired by a non-executive internal director) and Executive Officers Meeting to improve our risk management capability even as we accelerate business.

As the Company transitioned to the Tokyo Stock Exchange's new Prime Market segment and Japan's Ministry of Economy, Trade and Industry updated its Practical Guidelines for Corporate Guidance Systems in FY 2022, we made changes in FY 2023 that include delegating even more authority to the executive team by putting the Executive Officers Meeting in charge of top-level decision-making, and establishing a new Business Strategy Meeting that includes our non-executive internal director as a member to set the direction for the Company's medium- to long-term strategies and ensure proper decision-making in the executive team.

The Business Review Committee (established in April 2021) also began operating within the Executive Officers Meeting starting from FY 2023. 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.

Seeing the importance of tackling climate change and making human capital investments in sustaining

group-wide growth and raising medium- to long-term corporate value, we work to address these sustainability priorities through our Sustainability Promotion Committee (which reports to the Executive Officers Meeting) and HR Development Committee (which reports to the board's Nomination & Remuneration Advisory Committee). The two committees will improve the quality of decision-making at the Executive Officers Meeting, help the board of directors exercise oversight with a stronger involvement in company strategies, and support the executive team in taking reasonable risks and making corporate reforms as necessary.

(2) Evaluation of the board's effectiveness
The Company conducts annual surveys to analyze and evaluate the effectiveness of our board of directors, verifying that corporate governance is enabling the sustainable creation of increased corporate value. The following summarizes our FY 2023 evaluation approach and results.

(i) Evaluation methodology
At our March 2024 board meeting, the secretariat explained the purpose and details of the FY 2023 evaluation survey before distributing it to the eight directors and three 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 subsequent pre-meeting session. Results were finalized in May 2024 after the board checked the evaluation approach/process and reviewed areas for improvement.

(ii) Survey format
Based on the previous year's survey, the FY 2023 survey consisted of 15 questions to assess progress in improving the board's effectiveness in seven categories drawn from Japan's Corporate Governance Code.

Areas 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)
g. Management with consciousness of cost of capital and share prices (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 2023 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 work to address.

a. Composition of the board
With external directors having comprised the majority in FY 2023, the board was deemed to be highly effective in the oversight of senior management.

b. Roles/responsibilities of the board
Survey responses suggested that meeting agendas were deliberated duly with diverse and active board participation. To ensure effective oversight for stronger governance, we have appointed external directors to chair the board and its advisory committees for nomination and remuneration since April 2021. Having given our representative director and the Executive Officers Meeting a bigger role in managerial decision-making in April 2023, we plan to hold more pre-meeting sessions and other discussion sessions involving external directors and Audit & Supervisory Board members to pick up more governance-level agendas for more substantial deliberations and outcomes.

c. Operations of the board
Board members were provided information in certain volume and quality, with sufficient time for decision-making. We will make improvements to address comments citing the need to distribute meeting materials earlier and in more concise forms.

d. System to support the board
Board members were given sufficient opportunities to seek clarifications and receive additional information concerning meeting materials, leading to quality discussions at board meetings. There was a

suggestion to combine the board's two advisory committees into one given that they handle nomination and remuneration matters which are interrelated. We shall consider this for FY 2024.

e. Relationship with shareholders
Shareholders' opinions, including critical ones, were being reported to the board every six months. We will continue to add more specificity and explore the possibility of increasing the reporting frequency.

f. Other matters pertaining to overall effectiveness
g. Management with consciousness of cost of capital and share prices
It was noted that our corporate governance is evolving, with the board increasingly taking in feedback from external directors and Audit & Supervisory Board members. We received suggestions to further improve the board's effectiveness through more interactions outside board meetings and are planning more pre-meeting/discussion sessions as mentioned earlier.
There was a shared understanding that companies listed on the Prime market must be conscious of the cost of capital in management and that the board must continue enhancing its business oversight function to that end. We will use board meetings to review measures such as setting capital efficiency targets.

(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.
We have a Nomination & Remuneration Advisory Committee (as of June 2024; was formerly established as two separate committees in April 2021) that is chaired by an independent external director and comprised in majority of external directors. The committee 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.
- Ability to get to the essence of matters and raise issues to management in a rigorous manner.
- Ability to attend board meetings and commit to board duties.

(ii) Appointment process
When consulted by the board of directors, the Nomination & Remuneration 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 & Remuneration 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 deemed not fully meeting criteria, directors will not be nominated by the board for election or reelection at the next general meeting of shareholders.

For directors and Audit & Supervisory Board members appointed at our 74th Annual General Meeting of Shareholders held in June 2024, their skills/competencies are mapped against what is expected of their roles in the following skills matrix. These skills/competencies are appropriately well-balanced with the Company's needs.

[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	●	–	Hiroyuki Konuma	●	●	●				●	●	●
	–	–	Tatsuo Narumi	●				●	●	●	●	●
	●	–	Yoshinori Sasahara	●	●					●	●	
	–	●	Ryoji Itoh	●		●	●			●	●	●
	–	●	Hideo Yamada	●				●	●	●	●	●
	–	●	Sadayoshi Fujishige	●		●	●		●	●	●	●
	–	●	Yoshiko Nonogaki	●		●			●	●	●	●
	–	●	Hiroshi Nagumo	●		●				●	●	●
Audit & Supervisory Board members	–	–	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 comprising one full-time and two external members at the point of releasing this report. Although there is only one full-time member, we have established a dedicated office and assigned qualified personnel to assist him in his duties, providing a framework that lets him work closely with our internal auditors to gather/analyze information from across the organization for reporting to external members on this board. The two external members, on the other hand, provide suggestions on our audit activities, leveraging their respective legal and accounting expertise.

In FY 2023, the Audit & Supervisory Board held 13 meetings in total.

Name	Meeting attendance
Junichi Nagakura	3/3
Kiyohiko Yoshii	13/13
Noriko Yao	13/13
Naoki Kubo	13/13

*Retired at the annual general meeting of shareholders in June 2023.

Audit & Supervisory Board members attend board of directors meetings to check business decisions and the effectiveness of internal controls, expressing their opinions when necessary. Members regularly receive explanations on audit plans from the Company's audit firm and engage in direct communication and information sharing with the firm through its quarterly and year-end auditor's reports. For key audit matters (KAM) identified by the audit firm, the Audit & Supervisory Board will verify their reasoning and follow up on them regularly, sharing information accordingly. It also checks the audit firm's work for appropriateness and legal compliance to assess the firm for its performance.
The full-time member attends the Business Strategy Meeting, Executive Officers Meeting and other important in-house meetings, where he audits/supervises different decision-making processes and resolutions reached, expressing his opinions when necessary. He also exchanges information with internal directors regularly to understand our business environment and challenges and provide advice accordingly. Under the oversight of the Audit & Supervisory Board, he undertakes a wide range of other activities, including verifying the readiness/operation of internal controls, examining the financial reporting system and reviewing various resolution/report documents. He also goes on site visits to understand on-site information from department managers/heads and provide advice while reporting his work outcomes to the Audit & Supervisory Board. In addition, he collaborates with the audit firm to receive quarterly audit/review reports, exchange opinions and gather information every month to create an environment conducive to proper auditing. He also constantly exchanges opinions with our internal audit department, from which he receives audit results and internal control evaluations concerning financial reporting that help him perform his duties in an effective and thorough manner. His office (established in FY 2023) provides support by reporting on in-house regulations and ongoing resolutions, and works with the internal audit department to check the readiness/operation of internal controls and compliance systems at our overseas offices to identify any areas of improvement.

(ii) By internal audit department
Our internal audit department of seven members is primarily responsible for reviewing business structure and operations and evaluating internal controls over financial reporting in accordance with Japan's Financial Instruments and Exchange Act (J-SOX). For J-SOX compliance, we evaluate company-level controls over book closing for not just the headquarters office in Japan but also two other group companies in Japan and 17 subsidiaries overseas. In FY 2023, we also expanded the evaluation scope of process-level controls (related to IT systems) to cover our China subsidiary, on top of our Japan and USA subsidiaries and Malaysia factory. Under close collaboration with our Group CEO and full-time Audit & Supervisory Board member, the department conducts site visits and remote auditing for Japan and overseas offices identified via the risk-based approach to prepare and submit reports to internal board members. Based on the reports, the Group CEO will instruct relevant managers/departments to take action on those areas needing improvement and report back accordingly. The full-time Audit & Supervisory Board member will also share these internal audit findings with external members on the same board.

(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
Three years

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

Name	Continuous years of engagement
Hirotaka Nakata, designated limited liability partner	3
Toshinao Shimizu, designated limited liability partner	3

d. Composition of audit team
Also assisting with the accounting audits are nine certified public accountants, 10 accountants (without CPA license), and 24 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 review and evaluate the audit firm's activities holistically for further discussion and deliberation at their board meetings.
For consistency and efficiency, the audit firm and its global network audit over 90 percent of our sales operations, covering not only Japan but also 21 of our overseas subsidiaries in 15 countries.
The 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 FY 2023, our Audit & Supervisory Board has given the audit firm an overall good rating for making effective use of the strengths of its global network in its audits.

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

	FY 2022		FY 2023	
	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	84	-	83	-
Consolidated subsidiaries	29	-	32	-
Total	114	-	115	-

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

	FY 2022		FY 2023	
	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	91	-	107	3
Total	91	-	107	3

Note: Non-audit services for consolidated subsidiaries in FY 2023 refer to mainly accounting advisory services.

c. Other audit fees deemed material
(FY 2022)
Not applicable
(FY 2023)
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, a SATO system dedicated to our corporate motto of Ceaseless Creativity that was started 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 Teiho, employees feel a sense of involvement in top-level decision-making and learn to internalize our culture of rejoicing in change even if it means staging small changes one at a time. The management, on the other hand, gets to understand what goes on at the different front lines of our business, which contributes to our corporate governance. In FY 2022, we launched a new category of Teiho reports in Japan called Make-a-Ripple Teiho to let employees timely raise suggestions specific to their work/workplace for consideration by their direct managers. This brings out the proactiveness, creativity and passion in employees for detecting and addressing areas that need improvement, through which we hope to produce meaningful changes and cultivate a culture of innovation.
In addition to our board of directors and Audit & Supervisory Board, we will continue and strengthen Teiho and Make-a-Ripple Teiho as these bottom-up initiatives are also key to us achieving strong and effective corporate governance.

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 2024 was held on June 21.
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 at least once every 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 increase 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. We focused on online meetings in FY 2021 but are gradually increasing in-person meetings with overseas investors since the second half of FY 2022.	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 and quarterly reports. Financial results reports, annual integrated reports, information releases, financial results briefing materials, key questions and answers from financial results briefings, and FAQs following the announcement of financial results are posted in both 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	We have laid down in our corporate 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.
Implementation of environmental activities, CSR activities, etc.	• 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." Our aim is to promote sustainability, or by our definition, efforts related to CSR, ESG and SDGs, through business. Information about our sustainability activities and more can be found on our website. (www.sato-global.com/sustainability/) • With our Sustainability Promotion Committee taking the lead, we implement the ISO14001-based environmental management system throughout the company while also engaging in environmental activities such as developing environmentally friendly products and expanding use of renewable energy for decarbonization. • 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 carbon dioxide 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 regularly. 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 carried out 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	• 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 promote diversity, equity and inclusion as part of our business strategy 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 one woman among our five external directors, one woman among our two external Audit & Supervisory Board members and four women (of whom one is non-Japanese) among our 16 executive officers (including those concurrently serving as directors). 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, equity and inclusion 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 Outstanding Organization recognition (Japan) for eight consecutive years from 2017 to 2024. • 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 our business. We also conduct activities that encourage or reward employee behaviors emblematic of our corporate values, and have introduced Make-a-Ripple Teiho to let employees timely raise suggestions specific to their work/workplace for consideration by their direct managers. Make-a-Ripple Teiho brings out the proactiveness, creativity and passion in employees for detecting and addressing areas that need improvement, through which we hope to produce meaningful changes and cultivate a culture of innovation. We will utilize and keep on improving these systems/activities 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 to let employees report any potential compliance violations to an external law firm that operates independently of the company's executives, for automatic escalation to the Audit & Supervisory Board. With thorough in-house education, we shall protect whistleblowers from retaliatory actions that are taken against them because of their whistleblowing.
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 board regulations, Executive Officers Meeting regulations 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 to the Executive Officers 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, which also reports directly to the Executive Officers Meeting, 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 while setting rules 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 Executive Officers Meeting (chaired by our Group CEO) before submitting to the board for approval or reported to the board after the said meeting has reached a decision, and their execution be handled by individual executive officers. Other committees set up under the 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 role (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 and Teiho system) mentioned in (i) above. All employees shall have access to independent channels for whistleblowing as aforementioned, unless restricted by law in their respective regions/countries.

(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 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 2023. 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 in April 2021 and placed under the Executive Officers Meeting starting from FY 2023) met 16 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 Executive Officers Meeting by submitting proposed resolutions (from in-house business owners) together with its recommendations.
Meanwhile, the Risk Management Committee met 11 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.

(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 2023. Also, through the Teiho system that we have had in place since 1976, we collected more than 490,000 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.
We continue efforts to put in place a second line role at the group level (based on the Three Lines Model) and 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 role, 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, since FY 2019, has kept departments responsible for stocktaking personal information they hold and analyzing related risks to review their storing/handling of internal information assets.
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 worked to educate our overseas group companies on handling information security incidents using a set of overseas guidelines created in FY 2021. 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 Executive Officers Meeting where they were free to exchange opinions with other counterparts.

V. Other

1. Implementation of anti-takeover measures

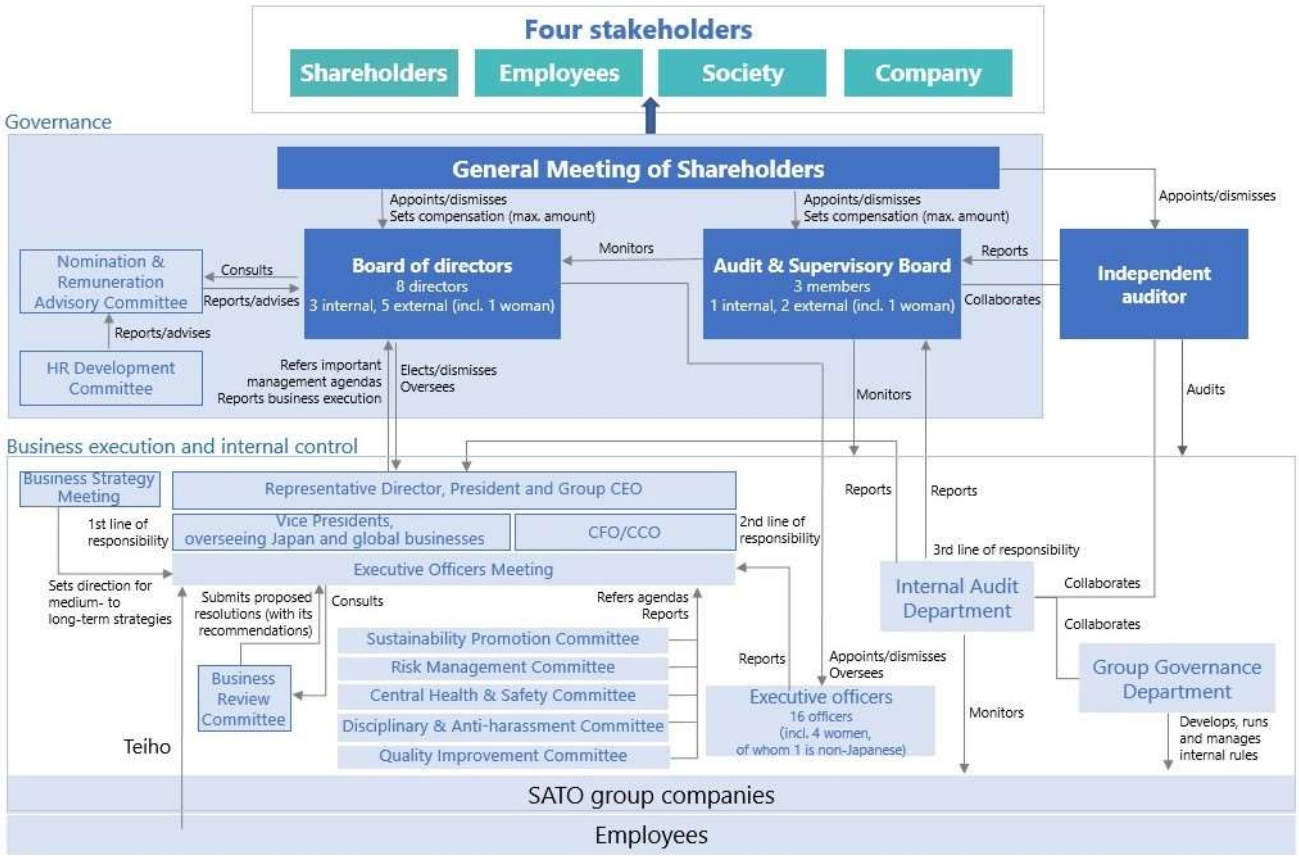
Implementation of anti-takeover measures	No

Supplementary explanation

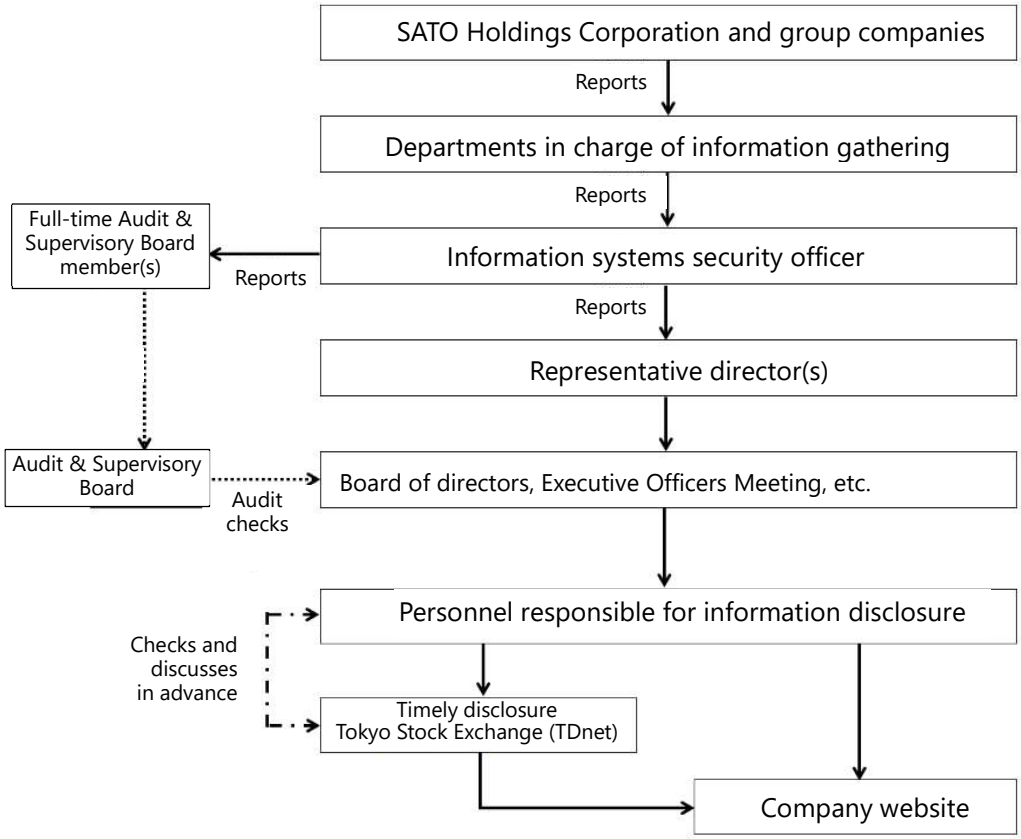
At this point in time, the Company has no plans to implement anti-takeover measures.

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 Executive Officers Meeting through the CFO, who is also the information systems security officer. 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 Executive Officers Meeting through the CFO, who is also the information systems security officer. 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.