

Last Updated: August 31, 2021

SATO HOLDINGS CORPORATION

Ryutaro Kotaki, President and CEO

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Securities code: 6287.T

www.sato-global.com

Corporate governance at SATO HOLDINGS CORPORATION (the "Company") is as described below.

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

1. Basic views Updated

We aim to realize sustainable growth and higher 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 our corporate governance system to support these aims is critical to ensuring the soundness, transparency and efficiency of our management. Besides enhancing audit and control functions through our Audit & Supervisory Board, we also appoint independent external directors of diverse backgrounds to constitute the majority of our board of directors for strong and transparent management oversight, in our efforts to lay the necessary groundwork for effective governance to protect shareholders and other stakeholders.

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

[Supplementary Principle 4.8.2 Appointing a lead independent external director]

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

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

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

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

[Principle 1.4 Cross-shareholdings]

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

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

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

[Principle 1.7 Related party transactions]

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

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

[Principle 2-3 Sustainability issues, including social and environmental matters]

We believe that sustainability is inseparable from our core business in auto-ID solutions, making it our corporate mission to “contribute towards a better and more sustainable world.” We aim to drive sustainability, which we define as activities that concern CSR, meet ESG standards and support SDGs, by contributing to the society through our business. To that end, we have set forth our basic policy for sustainability in 2018, established a Sustainability Promotion Committee in October 2019, and started addressing important sustainability issues (materiality) which we identified by their impact to our group businesses. These issues include not only environmental topics but also topics concerning human capital management. In pursuing sustainability management, we discuss matters with external experts to seek their advice as necessary and check on our progress regularly at board of directors meetings.

[Principle 2-4 Ensuring diversity, including active participation of women]

In April 2021, the Company established a Nomination Advisory Committee, appointing an external director to its chair. This committee looks into increasing diversity as a top priority, discussing the necessary when it comes to appointing core managerial personnel and other nomination matters. Following the approval of the 71st Annual General Meeting of Shareholders held on June 18, 2021, we now have three women (including one new appointment) among our external directors and Audit & Supervisory Board members. We also have one non-Japanese female executive officer on the management team.

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. It is also what underpins 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. We will work to entrench activities that allow employees to initiate improvements and innovations on a daily basis through Teiho.

[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) We make our management philosophy, target business objectives, and medium-term management plan available to the public via our website and integrated report.
(Management philosophy)
www.sato-global.com/about/values/
(Target business objectives and medium-term management plan)
www.sato-global.com/ir/policy/plan.html
- (2) We make our basic views on corporate governance available to the public via our website, securities report and integrated report.
(Basic views on corporate governance)
www.sato-global.com/about/governance/governance.html
- (3) Reasons for the individual appointments of directors and Audit & Supervisory Board members are provided in the reference documents for the general meeting of shareholders.

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

For the board to oversee the decision-making of critical business matters and the delivery of duties by each director/member of senior management, matters stipulated by laws/regulations and the Articles of Incorporation, and important matters concerning business strategies and management plans, are clearly

specified as matters for discussion in the board for which board regulations apply. Authority over the execution of other business operations is delegated to executive officers and senior executives, according to the Company's rules of authorization and Senior Executive Management Meeting regulations. To let the board focus more on conducting deliberation of important business matters and exercising oversight, we have delegated more decision-making authority to the executive team starting fiscal 2021. Roles and responsibilities of the Senior Executive Management Meeting and Executive Officers Meeting are also clearly defined to ensure we accelerate the making and execution of business decisions while enforcing strong risk management at the same time.

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

Starting fiscal 2021, we established a new Business Review Committee under the Senior Executive Management Meeting, in place of the Business Risk Committee which used to advise and report directly to the board. This new committee shall assess and analyze 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 at the said meeting.

Our Risk Management Committee, also under the Senior Executive Management 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 Auditor Office works closely with the Audit & Supervisory Board, reporting to it as necessary. It also shares internal audit results with internal directors. When deemed necessary by internal directors or full-time Audit & Supervisory Board members, representatives from the Auditor Office shall attend board of directors meetings to report internal audit results and participate in board deliberations.

[Principle 4.8 Effective use of independent external directors]

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

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

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

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

[Principle 4.10 Use of optional approach]

To enhance the independence, objectivity and accountability of board functions on matters of nomination and remuneration for the Company's directors, executive officers and senior officers, we have established two advisory committees to the board of directors in April 2021 with independent external directors chairing and forming the majority on each committee.

The Nomination Advisory 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 advice and recommendations. The scope of its work includes reviewing the Company's approach to diversity as a top priority.

The Remuneration Advisory Committee functions to not only support the board in drafting performance evaluations for directors, executive officers and senior officers with their proposed remuneration, but also look into all remuneration matters (including remuneration policies or standards/procedures and

information disclosure) to provide advice and recommendations. The scope of its work includes reviewing the Company's remuneration structure for employees as well.

[Supplementary Principle 4.11.1 Diversity and appropriate board size]

The Company defines standards and processes for appointment/dismissal of directors, ensuring that the board comprises members with diverse professional backgrounds and perspectives so that it can draw on their diverse ideas, opinions and values. We maintain board size that allows for active discussions while complying with the Articles of Incorporation, which limits the number of directors to no more than 12. We also disclose information about the knowledge, experience and competencies of each director in the form of a skills matrix.

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 in fiscal 2020 to assess, for example, the composition of the board, its operations, roles/responsibilities, support system, and relationship with shareholders, collating and analyzing the results for discussion at board meetings. Evaluation results showed that the board, with external directors raising questions and opinions freely in constructive discussions, is functioning better than ever and maintains its effectiveness in making important management decisions and supervising business execution. For issues identified in these evaluations, we will make it a point to implement changes and continuous improvements so as to further enhance the effectiveness of the board. 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 statutory auditor to exchange information and opinions with their counterparts in other companies, allowing them to re-examine their roles/responsibilities and pursue development of necessary skills.

[Principle 5.1 Policy for constructive dialogue with shareholders]

We attach great importance to dialogue with shareholders as a means to help the Company realize sustainable growth and raise medium- to long-term corporate value. As part of our responsibility to explain information about our business operations to shareholders, we take care to answer questions shareholders raise at the general meeting of shareholders.

With regard to IR activities, we hold financial results briefings (quarterly) and one-on-one briefings (as necessary) for institutional investors. Our CEO, CFO and IR department also respond to individual meetings with institutional investors actively, making efforts to reflect their opinions and requests in how we manage our business operations.

In addition, we utilize the Company's website to proactively disclose our IR disclosure policy, financial summaries, press releases and other IR information and updates, as well as to attend to questions from investors.

When engaging in dialogue, the Company observes the quiet period 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.

2. Capital structure Updated

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

Name	Shares owned	% to shares outstanding
Sato Yo International Scholarship Foundation	3,786,200	11.21
Custody Bank of Japan, Ltd. (trust account)	2,876,800	8.52
The Master Trust Bank of Japan, Ltd. (trust account)	2,184,900	6.47
SATO Employees' Stockholding	1,353,692	4.01
The Bank of New York Mellon 140051	1,185,700	3.51
Government of Norway	1,061,250	3.14
The Bank of New York 133612	967,400	2.86
Shizue Sato	897,470	2.66
Mieko Yokoi	894,345	2.65
Arena Co. Ltd.	854,460	2.53

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

Supplementary explanation Updated

1. A large-volume possession report publicly filed on November 6, 2020, indicated that Nomura Asset Management (and one other joint holder) owns the following number/ratio of our issued shares as of October 30, 2020. This information is not included in the above list as we are unable to verify its actual shareholding as of March 31, 2021.

Name: Nomura Asset Management Co., Ltd. (and one other joint holder)
Address: 2-2-1 Toyosu, Koto-ku, Tokyo 135-0061, Japan
Ownership: 1,765,200 shares
Shareholding ratio: 5.06%

2. A large-volume possession report publicly filed on December 7, 2020, indicated that Sumitomo Mitsui Trust Asset Management (and one other joint holder) owns the following number/ratio of our issued shares as of November 30, 2020. This information is not included in the above list as we are unable to verify its actual shareholding as of March 31, 2021.

Name: Sumitomo Mitsui Trust Asset Management Co., Ltd. (and one other joint holder)
Address: 1-1-1 Shibakoen, Minato-ku, Tokyo 105-0011, Japan
Ownership: 2,171,100 shares
Shareholding ratio: 6.22%

3. A large-volume possession report publicly filed on December 21, 2020, indicated that Baillie Gifford & Co (and one other joint holder) owns the following number/ratio of our issued shares as of December 15, 2020. This information is not included in the above list as we are unable to verify its actual shareholding as of March 31, 2021.

Name: Baillie Gifford & Co (and one other joint holder)
Address: Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN, Scotland
Ownership: 2,541,400 shares
Shareholding ratio: 7.28%

3. Corporate attributes

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

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

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

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

1. Organizational composition and operation

Organization form	Company with Audit & Supervisory Board
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[Directors]

Maximum number of directors stipulated in Articles of Incorporation	12
Term of office stipulated in Articles of Incorporation	1 year
Chairperson of the board <input type="text" value="Updated"/>	External director
Number of directors <input type="text" value="Updated"/>	9
Appointment of external directors	Yes
Number of external directors	5
Number of external directors designated as independent officers	5

External directors' relationship with the Company (1)

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

*Circumstances that affect the director's independence

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

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

- a. Executive of the listed company or its subsidiary
- b. Non-executive director or executive of the listed company's parent company
- c. Executive of the listed company's fellow subsidiary
- d. Individual who deals with the listed company as its major client/supplier or executive of any organization that does so
- e. Major client/supplier 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 payments 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 with which the listed company has a reciprocal arrangement for the appointment of external directors
- 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) Updated

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

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

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

Updated

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

Supplementary explanation Updated

As of June 18, 2021, our discretionary committees are made up as follows.

Nomination Advisory Committee

Chairperson: Yuko Tanaka (external director)

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

Remuneration Advisory Committee

Chairperson: Sadayoshi Fujishige (external director)

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

[Audit & Supervisory Board members]

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

Cooperation among Audit & Supervisory Board members, statutory auditor and Auditor Office
 Updated

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

Members work closely with the Company's statutory 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 Auditor Office as well to understand its plans for internal audits and regularly receive its audit results and evaluation findings on internal controls for financial reporting, sharing these results/findings with external members on the same board. They also attend internal audits conducted by the Auditor Office 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) Updated

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. Individual who deals with the listed company as its major client/supplier or executive of any organization that does so
- g. Major client/supplier 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 payments 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 with which the listed company has a reciprocal arrangement for the appointment of external directors
- 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) Updated

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	<p>Attorney-at-law</p> <p>Partner, TMI Associates</p> <p>External Audit & Supervisory Board Member, Japan Overseas Infrastructure Investment Corporation for Transport & Urban Development</p> <p>External Director, Meiko Network Japan Co., Ltd.</p> <p>External Director, Asahi Net, Inc.</p>	<p>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.</p> <p>ii) The individual has no disqualifying relationships with the Company as specified in the guidelines concerning listed company compliance, etc., and therefore shall neither control nor be controlled by our senior management to any significant extent. Free of any potential conflict of interests with general shareholders, the individual is deemed capable of meeting shareholder expectations in providing oversight independently of the Company's representative directors and other executives, to ensure effective corporate governance.</p>
Naoki Kubo	Yes	<p>Certified public/public tax accountant</p> <p>President, Kubo Accounting Office</p> <p>Executive, Tokyo Chapter of The Japanese Institute of Certified Public Accountants</p> <p>External Director, Beauty Sharing Technologies Co., Ltd.</p> <p>External Auditor, Japan Federation of Land and House Investigators' Associations</p> <p>*Left KPMG Azsa LLC in 2019</p>	<p>i) To apply Mr. Kubo's professional knowledge and experience as certified public/public tax accountant to the Company's business management.</p> <p>ii) The individual has no disqualifying relationships with the Company as specified in the guidelines concerning listed company compliance, etc., and therefore shall neither control nor be controlled by our senior management to any significant extent. Free of any potential conflict of interests with general shareholders, the individual is deemed capable of meeting shareholder expectations in providing oversight independently of the Company's representative directors and other executives, to ensure effective corporate governance.</p>

[Independent officers]

Number of independent officers	7
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Matters relating to independent officers

- All of the Company's five external directors (of which two are women) and two external Audit & Supervisory Board members (one woman) are independent officers.
- These independent officers hold opinion exchange sessions together with non-executive internal directors and Audit & Supervisory Board members as and when needed to engage in useful discussions and share information on business management issues without the control of corporate managers and from perspectives independent of business execution. Where necessary, they will follow up on discussed issues to deliberate, report, or make suggestions within the board of directors to help solve them accordingly.

[Incentives]

Implementation of measures to provide incentives to directors	Performance-based stock compensation plan, Stock option plan (discontinued in 2016)
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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 fiscal 2016 to fiscal 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 fiscal 2021 as there are still residual shares within the trust.

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

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

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

iv) Timing of Delivery of Company shares.

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

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

[Director remuneration]

Disclosure of individual directors' remuneration	No
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Supplementary explanation	Updated
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Total remuneration of directors in fiscal 2020 amounted to ¥198 million (inclusive of performance-based monetary and stock compensation).

Presence of a remuneration policy	Yes
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Disclosure of remuneration policy	Updated
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(1) Matters relating to remuneration policy

The remuneration structure for board members is an extremely important element of corporate governance, and we have laid down our remuneration policy as follows, with the approval of the board meeting held in March 2019.

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

Remuneration for the Company's directors consists of basic compensation (fixed monetary sum), performance-based monetary compensation, and performance-based stock compensation. The weighting of each component is decided by considering balance with overall remuneration amount and position of officer, whereby those in higher positions receive a larger ratio of performance-based compensation. In determining remuneration, we set out and follow an appropriate procedure that enables fair and transparent deliberations, reviewing it from multiple angles to check for consistency with our remuneration policy among others. We believe this keeps us aligned with our remuneration policy.

Procedure to determining remuneration for executive directors/officers

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

Remuneration level and coefficient shall remain fixed unless there are major changes in conditions.
March 2019

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

↓

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

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

The Remuneration Advisory Committee newly established in April 2021 shall be responsible for looking into all remuneration matters including the above procedure to provide advice and recommendations to the board.

Note that the above remuneration procedure does not apply to Audit & Supervisory Board members, who shall only receive basic/fixed compensation of an amount decided with their consent, in order to ensure their independence and objectivity.

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

The maximum amount of remuneration for board directors is ¥400 million per year (excluding employee wages for executive positions they hold in the Company). This was approved at the annual general

meeting of shareholders held on June 27, 1997 when 13 directors were in office.

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

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

(3) Matters relating to performance-based remuneration

Performance-based monetary compensation depends on business achievement that is being measured by the company's degree of accomplishment of its consolidated operating income target because operating income is a direct product of business activities. It is also dependent on individual achievement, whereby each officer is evaluated by their contributions to the company's medium- and long-term growth.

Performance-based stock compensation, on the other hand, takes into account the company's degree of accomplishment of its consolidated operating income target and consolidated ROIC target (metric used for determining capital efficiency). Executive directors will be granted performance-linked points every June based on the aforementioned metrics to receive compensation corresponding to their accumulated points following the end of each three-year term.

(4) Breakdown of remuneration for board members

	Total remuneration (Millions of JPY)	Fixed compensation	Performance-based monetary compensation	Performance-based stock compensation	No. of eligible board members
Internal director	155	133	9	12	4
Internal member of Audit & Supervisory Board	40	40	-	-	2
External director	43	43	-	-	6
External member of Audit & Supervisory Board	15	15	-	-	2

Note: Table includes directors who retired in June 2020 and their remuneration.

Ratios for fixed and performance-based remuneration for board members derived from fiscal 2020 actuals are as follows.

Position	Fixed compensation	Performance-based monetary compensation	Performance-based stock compensation	Performance-based compensation subtotal	Evaluation weight	
					Business achievement	Individual achievement
Representative Director and President	75.9%	9.9%	14.2%	24.1%	100%	0%
Representative Director and Vice President	88.5%	5.0%	6.5%	11.5%	50%	50%
Director and Vice President	88.0%	5.2%	6.8%	12.0%	50%	50%
Non-executive internal director	100%	-	-	-	-	-
Internal member of Audit & Supervisory Board	100%	-	-	-	-	-
External director/member of Audit & Supervisory Board	100%	-	-	-	-	-

(5) Total consolidated remuneration for officers

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

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

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

[Advisory positions held by former Presidents/CEOs] Updated

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

Name	Title/ Position	Responsibilities	Work arrangement and conditions	Date of retirement as President	Term of office
Koichi Nishida	Advisor	Handling outside activities with industry organizations	Full-time, with remuneration	June 22, 2012	1 year (starting June 21, 2020)
Ikuo Dobashi	Advisor	Providing advice for certain operations as per the President's request	Full-time, with remuneration	June 24, 2011	1 year (starting June 21, 2020)

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

(1) Structure and operation of the board of directors

Our management consists of a board system with an Audit & Supervisory Board and a team of executive officers, by which the functions of managerial decision-making/oversight and operational execution are separated to expedite decisions on company management.

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

The board of directors meets once a month in principle; it convened 13 times in total for fiscal 2020.

Starting fiscal 2018, pre-working sessions have been held before each board meeting to explain important meeting agenda points and industry-specific sales measures to ensure external directors can take part in various discussions and deepen understanding of the company's operations. This aims to aid in their duties and make board meetings more effective.

In January 2020, we changed how the board is chaired, switching from rotating chairmanship to electing a non-executive internal director who is familiar with internal issues. With the chair setting relevant and timely meeting agendas and driving collaboration between company executives and external directors, we believe the board was functioning more competently and responsibly than before in making major business decisions and providing management oversight. More recently in April 2021, we started having an external director chair the board to further enhance the board's oversight function for stronger governance.

To adhere to the upcoming revisions to Japan's Corporate Governance Code in fiscal 2021, our board must now focus more on conducting deliberation of important business matters and exercising oversight. We

now delegate greater corporate powers for decision making to our company executives, while our Senior Executive Management Meeting (chaired by a non-executive internal director) and Executive Officers Meeting make and execute business decisions respectively, to ensure we enforce strong risk management even as we accelerate the business.

In line with the above changes, the Business Risk Committee, advising and reporting directly to the board, has been replaced by a Business Review Committee newly established under the Senior Executive Management Meeting. This new committee shall examine and analyze the risks the company takes in its business (when making investments and loans, acquiring and disposing of stock and fixed assets, entering into business partnerships or important agreements, and buying or selling businesses) to improve the quality of deliberations for top-level decision making.

(2) Evaluation of the board's effectiveness

The Company conducts yearly surveys to analyze and evaluate the effectiveness of our board of directors to check our corporate governance and take appropriate measures to sustainably improve corporate value. The following summarizes our evaluation approach and results for fiscal 2020.

i) Evaluation methodology

At the board meeting in March 2021, we had our board secretariat explain the purpose and details of the fiscal 2020 evaluation survey before distributing it to eight directors and four Audit & Supervisory Board members for their completion.

With the survey responses that were collected anonymously, directors and Audit & Supervisory Board members exchanged opinions regarding the evaluation at the pre-working session in April, and went on to finalize the results at the board meeting in May.

ii) Survey themes

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

Topics evaluated (corresponding CGC principles in parentheses)

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

iii) Summary of results and areas for improvement

Directors and Audit & Supervisory Board members who answered the survey generally found the board to have functioned effectively in fiscal 2020, with adequate efforts being made to better its performance from the previous year. There are, however, areas for improvement, which we will address with speed.

a. Composition of the board

The board, comprised of an equal number of internal and external directors in fiscal 2020, is deemed to be highly effective in the oversight of senior management. We have appointed a new female external director at our 71st Annual General Meeting of Shareholders held in June 2021, making external directors the majority on the board once again. Our Nomination Advisory Committee (established in April 2021) will devote efforts to increasing diversity of gender and competency on the board, which has been identified as a top priority.

b. Roles/responsibilities of the board

Survey responses noted improvements in the preparation of meeting agendas and timely submission of matters for board approval, thanks to the efforts of the board chair and secretariat. We aim to make board meeting agendas and deliberations more substantial. To that end, we have established advisory committees in April 2021 to review important matters on appointment/dismissal and remuneration of senior management. We have also delegated more decision-making authority to our representative directors and Senior Executive Management Meeting to let the board better focus on the deliberation of agendas that are fundamental to the company. Given the importance of information sharing and the exchange of opinions, we will continue to create opportunities for two-way communication between executive officers and external directors/Audit & Supervisory Board members.

c. Operations of the board

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

d. System to support the board

Board members were given sufficient opportunities to seek clarifications and receive additional information via pre-working sessions and other information sharing channels, which led to active discussions at board meetings. We will make sure the board receives review outcomes from advisory committees for nomination and remuneration, direct reports from our Auditor Office and other information as needed.

e. Relationship with shareholders

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

In view of the above survey results and improvement areas, we will work to further enhance our board's effectiveness to help us achieve stronger governance and greater corporate value on a sustainable basis.

(3) Appointment and dismissal of directors and representative directors

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

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

i) Appointment/selection 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).

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

ii) Appointment process

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

iii) Dismissal process

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

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

For details about the skills/competencies of the individual directors and Audit & Supervisory Board members appointed at our 71st Annual General Meeting of Shareholders held in June 2021, please refer to the skills matrix under section V-2 "Other matters concerning our corporate governance system."

(4) Audit checks

i) By Audit & Supervisory Board

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

Audit & Supervisory Board members attend board of directors meetings where they supervise different decision-making processes and audit internal controls to ensure that they are appropriate and legally compliant, expressing their opinions when necessary. In the case of full-time members, they serve the same roles also at the Senior Executive Management Meeting and other important in-house meetings, carrying out audit and supervision over their decision-making processes and resolutions.

The Audit & Supervisory Board undertakes a wide range of other activities, including verifying the readiness/operation of internal controls, examining the financial reporting system, reviewing various report materials, and checking the independence and audit quality of the Company's statutory auditor (audit firm).

Meeting and attendance records for the Audit & Supervisory Board in fiscal 2020 are as follows.

Name	Meetings held	Meetings attended
Nobuhiro Yokoi	15	15
Junichi Nagakura	15	15
Takao Yamaguchi	15	15
Noriko Yao	15	15

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

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

ii) By internal audit department

Our Auditor Office is responsible for performing internal audits to provide objective, independent reviews for assurance and advisory oversight. Based on internal audit plans set at the beginning of the fiscal year, the Auditor Office audits operations at our business locations in Japan and overseas to evaluate their various management activities related to governance, risk management, and control processes to identify areas of possible improvement. The office submits its reports to the president who then instructs relevant managers/departments to make improvements and report back accordingly. It also shares these internal audit results regularly with the Audit & Supervisory Board.

With the COVID-19 pandemic affecting travel to our global locations and imposing restrictions on internal audit activities in the past fiscal year, the Auditor Office is now shifting to remote auditing and trialing new software in efforts to upkeep and improve its audit quality.

iii) By statutory auditor

The Company has been receiving accounting audits from professional services firm PricewaterhouseCoopers Aarata 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

PricewaterhouseCoopers (PwC) Aarata LLC

b. Audit tenure

7 years

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

Name	Audit firm	Continuous years of engagement
Hideaki Zenba, designated limited liability partner	PwC Aarata LLC	2
Tatsuya Chiba, designated limited liability partner	PwC Aarata LLC	4

d. Composition of audit team

Also assisting with the accounting audits are seven certified public accountants, five accountants (without CPA license), and nine 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 statutory auditor.

f. Evaluation of audit firm

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

The audit firm is evaluated on the following aspects to determine its overall propriety as statutory auditor:

1) Quality control; 2) Personnel; 3) Fees; 4) Communication with Audit & Supervisory Board members; 5) Relationship with corporate managers, etc.; 6) Group audits; 7) Risk of misconduct

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

However, as audits become more time-intensive leading to higher audit fees in recent years, we started looking into other audit firms and appointed KPMG Azsa LLC as our new statutory auditor, following the expiry of PwC Aarata LLC's term of service at the conclusion of our 71st Annual General Meeting of Shareholders. We have determined that KPMG Azsa LLC is capable of providing proper financial audits after comprehensively considering various factors as mentioned in e. above. We also found the audit firm suitable because of its potential to provide auditing from a new perspective.

(5) Audit fees

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

	Fiscal 2019		Fiscal 2020	
	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	75	-	92	-
Consolidated subsidiaries	14	-	17	-
Total	89	-	109	-

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

	Fiscal 2019		Fiscal 2020	
	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	57	7	51	6
Total	57	7	51	6

c. Other audit fees deemed material

(Fiscal 2019)

Not applicable

(Fiscal 2020)

Not applicable

d. Audit 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 statutory 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 Updated

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. In April 2021, we started appointing an external director to chair board meetings to further enhance the supervisory function provided by external directors.

At the basis of these activities is Teiho, SATO's very own system introduced in 1976 for employees to write short daily reports (within a set word count) about their ideas or suggestions to better the Company, and submit them directly to top management. Through these daily Teiho reports, employees feel a sense of involvement in top-level decision making, while the management gets to understand what goes on at the different front lines of our business. This also contributes to our corporate governance.

In addition to our board of directors and Audit & Supervisory Board, we will continue efforts to achieve a strong and effective corporate governance system by maintaining and strengthening our Teiho system as an important bottom-up approach to 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 Updated

	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 2021 was held on June 18.
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 Updated

	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 fiscal 2017, we have also been holding briefing sessions for individual investors several times each year.	Yes
Regular briefings for analysts and institutional investors	We hold financial results briefings (quarterly) and one-on-one briefings for specific topics (as necessary). We also hold approximately 250 individual IR meetings annually, seeking to achieve sustainable growth and higher corporate value on a medium- to long-term basis.	Yes
Regular briefings for overseas investors	Since fiscal 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 fiscal 2013) and Asian countries (since fiscal 2016, by our IR Office) as well. Also, one-on-one meetings are held as needed for overseas investors when they visit Japan. In fiscal 2020, we continued meetings with overseas investors, conducting them online instead of in person.	Yes
Posting of IR materials on website	We upload materials including our management philosophy, target business objectives, medium-term management plan, and statutory and voluntary disclosure materials such as notices for the general meeting of shareholders (Japanese with English summary), securities reports, quarterly reports, financial results reports (Japanese and English), annual integrated reports (Japanese and English), information releases (Japanese and English) and financial results briefing materials (Japanese and English). Through our website we also operate an e-mail service offering IR information and updates including financial summaries and press releases to interested parties, and actively respond to IR-related questions from individual investors.	
Establishment of department and/or manager in charge of IR	We have established the IR Office as a dedicated department for IR. See section I [Principle 5.1] for details.	

3. Measures to ensure due respect for stakeholders Updated

	Supplementary explanation
Stipulation of internal rules for respecting stakeholders	<p>We have laid down in our corporate values (SATO Values) that the Company's Mission is "to create new value for our customers through products and services of superior quality, and to contribute towards a better and more sustainable world." We also set forth in our Credo to share the returns from our business with our four stakeholders (shareholders, employees, society and the company), using this idea toward strengthening our relationships with each stakeholder and improving our corporate/business value.</p>
Implementation of environmental activities, CSR activities, etc.	<ul style="list-style-type: none"> •We believe that sustainability is inseparable from our core business in auto-ID solutions, making it our corporate mission to "contribute towards a better and more sustainable world." We aim to drive sustainability, which we define as activities that concern CSR, meet ESG standards and support SDGs, by contributing to the society through our business. Information about our sustainability activities and more can be found on our website. (www.sato-global.com/sustainability/) •With the Sustainability Promotion Committee leading our environmental activities, we actively develop environmentally-friendly products on top of implementing the ISO14001-based environmental management system throughout the company. •In December 2012, we became the first company in the Japanese label industry to obtain the Carbon Footprint of Products certification which allows us to display how much CO₂ a product emits over its life cycle. •In 2014, we began participating in the Forest of Companies project as part of the Pollenless Forestation campaign organized by the Tokyo Development Foundation for Agriculture, Forestry, and Fisheries. We sponsor pockets of forestland in the Tokyo cities of Ome and Akiruno, and carry out weeding and other conservation activities there on a yearly basis. In October 2016 and May 2020, we were certified as a contributor to the Tokyo forestation program by the Agriculture, Forestry and Fishery Division of the Tokyo Metropolitan Government's Bureau of Industrial and Labor Affairs. •Amid the COVID-19 pandemic in 2020, we continued activities to help people live their daily lives with greater peace of mind by offering solutions for workplace temperature screening (to prevent virus transmission), supporting contactless self-maintenance for printers and donating awareness stickers to elementary and middle schools in Japan.
Formulation of policies on providing information to stakeholders	See section I [Principle 3.1] for details.

	Supplementary explanation
Others	<ul style="list-style-type: none"> • Under our Vision to be "the customer's most trusted partner for mutual growth, and always essential in an ever-changing world," we pursue globalization and maximization of customer value, and make promoting diversity part of our business strategies in keeping with our corporate motto of Ceaseless Creativity. We will endeavor to respect individual differences and strengths as we generate innovative ideas to stay competitive in the global marketplace and continue to evolve our business to better address the diverse values and needs of customers around the world. • We are also focusing efforts on driving the active engagement of female employees, which involves creating a workplace environment that is complete with supporting systems and allows all to work with peace of mind while maintaining work-life balance even with maternity, childcare and other commitments. With the approval of our 71st Annual General Meeting of Shareholders held in June 2021, we currently have two women among our five external directors, one woman among our two external Audit & Supervisory Board members, and one non-Japanese woman among our ten (if including those concurrently serving as directors) executive officers. In addition, we have taken part in the declaration signing for a call to action from the Japanese government urging male business leaders to create "A Society in Which Women Shine," and will strive to drive diversity further through women empowerment. • In July 2015, we launched a full-scale wellness management scheme to improve the health of 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 White 500 designation (Japan) for four consecutive years from 2017 to 2020. • We have Teiho, our very own system introduced in 1976 for employees to write short daily reports (within a set word count) about their ideas or suggestions to better the Company, and submit them directly to top management. This is an important system that gets all employees involved in running the Company, and we will utilize and keep on improving it to help us fulfill the expectations of our stakeholders.

IV. Matters related to internal control

1. Basic views and systems regarding internal control Updated

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

(1) Internal control policy

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

a. Corporate governance

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

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

b. Compliance

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

b. System to manage the risk of loss at subsidiaries

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

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

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

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

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

vi) System to ensure reliability of financial reports

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

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

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

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

viii) System for reporting to the Audit & Supervisory Board

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

The same board shall also receive internal whistleblowing reports regularly from the department in charge and audit results from our Auditor Office 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 fiscal 2020. We will monitor how our internal controls are operating and keep improving them in terms of relevance and effectiveness.

i) Managing risks

In fiscal 2020, the Business Risk Committee (advisory committee to board of directors; now replaced by the Business Review Committee) met 25 times and reviewed matters including major investments that require board deliberation, business strategies for specific businesses/subsidiaries, corporate planning/management, and coordination with headquarters. It also reviewed the governance model for our second line of responsibility and standards for continuing/discontinuing businesses at subsidiaries, submitting its recommendations to the board.

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

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 fiscal 2020. Also, through the Teiho system that we have had in place since 1976, we collected more than 480,000 suggestions/reports on new ideas our global employees derived from daily work, and feedback they gathered from customer interactions over the year. Besides allowing employee input to be incorporated quickly into decision-making at the top level, Teiho has also come to serve as an important system that contributes toward a corporate culture of compliance.

On the same note, we have established channels for employees to seek advice or report on any violation

of laws and regulations internally or via an independent platform that is managed by an external law firm. This means that suspected unethical behaviors of senior executives, if any, can be escalated to the Audit & Supervisory Board without interference from the named subjects, helping us better detect misconduct/breaches and enforce regulatory compliance thoroughly.

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.

In fiscal 2020, we put in place a second line of responsibility at the group level (based on the Three lines of defense model) and started holding global second line meetings to effectively support and exercise stronger checks and balances on sales and other operational divisions at different group companies.

To strengthen governance, we also assessed the situation at our overseas group companies and engaged them in discussions to formulate different rules deemed essential for group governance, which we have finished introducing at key group companies to take effect from April 2021.

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. Since fiscal 2019, the committee has had departments start stocktaking personal information they hold and analyzing related risks to review their storing/handling of internal information assets.

When there are information security incidents, efforts are also made to promptly investigate the cause to plan and roll out actions that prevent them from happening again.

In fiscal 2020, we formulated an information security policy with objectives to ensure security measures and account/access control methods are in place to keep information systems safe starting from their development to implementation and maintenance, on top of governing the management of information assets across the SATO Group.

v) Ensuring effectiveness of the Audit & Supervisory Board

We implement internal controls over reporting to the Audit & Supervisory Board to ensure effective audits. For example, the board's members meet directors regularly and join the Senior Executive Management Meeting as observers, where they are free to exchange opinions with other counterparts as and when necessary.

V. Other

1. Implementation of anti-takeover measures

Implementation of anti-takeover measures	Not adopted
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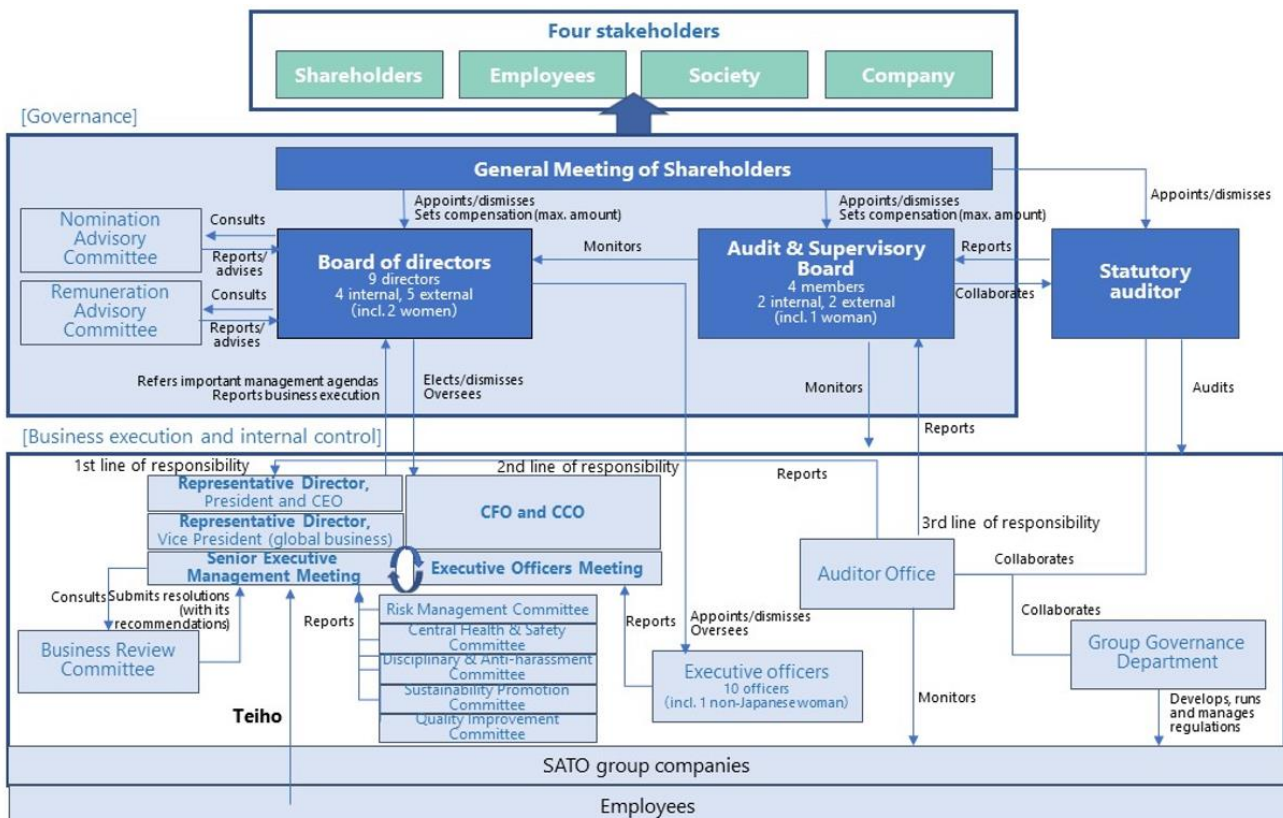
Supplementary explanation

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

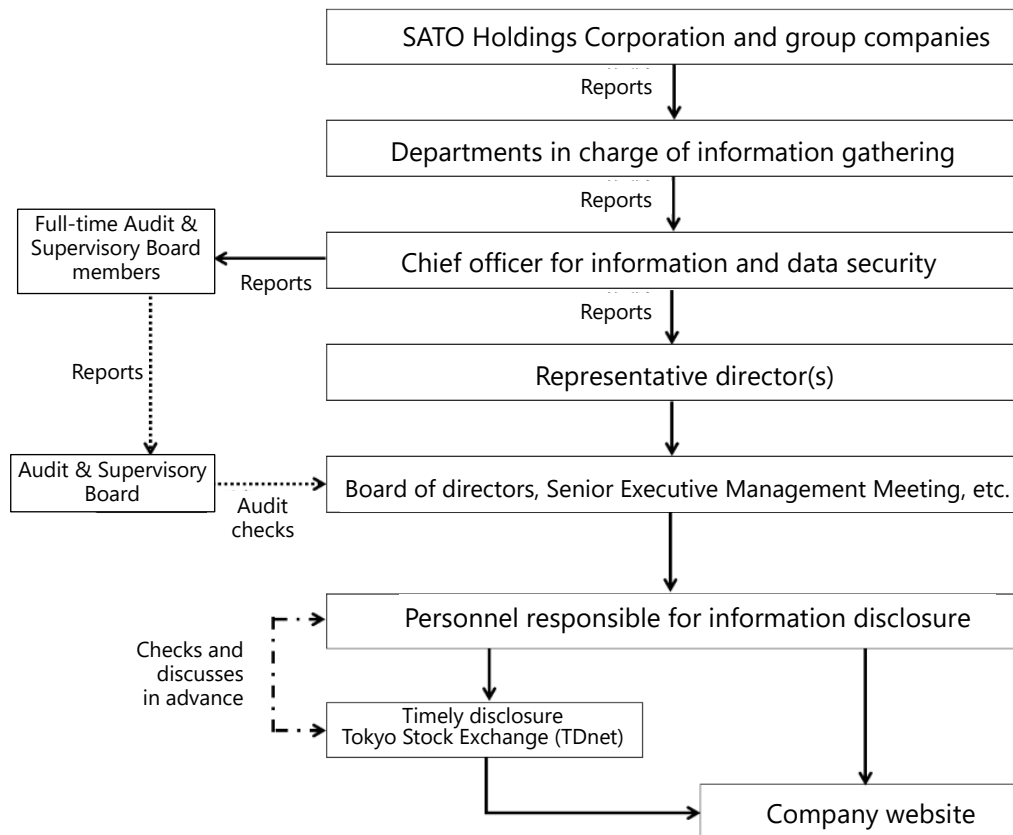
2. Other matters concerning our corporate governance system Updated

[Corporate governance framework]

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



[Internal system for timely disclosure of company information]



Overview:

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

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

(1) Information related to decisions made

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

(2) Information related to occurring facts

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

(3) Information related to financial performance

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

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

The following shows skills/competencies of the Company’s directors and Audit & Supervisory Board members mapped against what is expected of their roles. Overall, the two boards are appropriately well-balanced in the skills/competencies needed to fulfill their responsibilities.

			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
Directors	•	–	Ryutaro Kotaki	•	•					•	
	•	–	Yoichi Abe	•		•	•	•	•	•	•
	•	–	Hiroyuki Konuma	•	•						•
	–	–	Tatsuo Narumi	•					•	•	•
	–	•	Yuko Tanaka	•				•	•	•	•
	–	•	Ryoji Itoh	•		•	•			•	•
	–	•	Hideo Yamada	•				•	•	•	•
	–	•	Sadayoshi Fujishige	•		•	•		•	•	•
Audit & Supervisory Board members	–	•	Yoshiko Nonogaki	•		•				•	•
	–	•	Nobuhiro Yokoi	•		•				•	•
	–	•	Junichi Nagakura				•	•		•	
	–	•	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 risk management:

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. Diversity:

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