

ESG FAQs

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ESG management

Q. How often do the senior management meet to discuss ESG and how often do they present to the board?

- ✓ The Sustainability Promotion Committee, which includes some members of the senior management, meets monthly to discuss ESG.
- ✓ The Head of the Committee reports to the Board once or twice a year.

Q. How often does the board discuss ESG issues?

- ✓ In addition to the discussions based on the above-mentioned report by the Head of the Committee, the Board discusses such issues as “Tagging for Sustainability” in relation to our medium-term management plan from time to time. As a result, the Board discusses sustainability issues every few months on average.

Q. What are some of the key ESG risks and topics that are being discussed, and how do you identify such issues as important to be worked on? How do you ensure that you do not miss out on important ESG topics to be discussed going forward?

- ✓ Some of the key ESG risks being discussed would be customers and investors leaving SATO due to insufficient actions and disclosure. Topics include business opportunities in the circular economy and “Avoided Emissions”.
- ✓ Risks are identified through surveys by ESG evaluation agencies and customers. Business opportunities, on the other hand, are identified through contacts with our customers and industries.
- ✓ Sustainability memberships and advisory contracts also keep us in the loop of global trends so that we do not miss out on important ESG topics to be discussed.

Q. Who is in charge of solving these issues? How do you track the progress?

- ✓ Business units are in charge of solving risks assisted by the Sustainability Promotion Department reporting to the CEO. The progress is tracked by monitoring such KPIs as GHG emissions and

evaluation by external parties.

- ✓ Business opportunities in the circular economy are sought by the T4S Business Laboratory reporting to the CEO. These include tagging solutions to recycle waste.

Supply chain management

Q. Are your supply chains affected by various trade restrictions on China?

- ✓ There is no significant impact so far. The impact is expected to remain small because of the following reasons.
 - Our printer factories are in Malaysia, Vietnam, and Taiwan. We have none in China.
 - Printer parts are largely procured from local and Japanese suppliers. We buy some parts made in China but through business partners and not directly from Chinese manufacturers.
 - Consumables are produced in countries where they are consumed.

Q. Who oversees supply chain management and product quality internally?

- ✓ No single division oversees the supply chain, but each business unit conducts its own procurement. An integrated procurement organization is planned for FY2025.
- ✓ Meanwhile, a sub-group under the Sustainability Promotion Committee is responsible for streamlining sustainable procurement until the planned organization is launched.
- ✓ Quality Assurance Department and Quality Control Division oversee product quality internally.

Q. Is there a code of conduct including human rights, no child labour, no forced labour, no controversial sourcing, etc.?

- ✓ We have a Code of Conduct, which includes the mentioned elements, disclosed as “Sustainable Procurement Guideline”, whose English version is being prepared.

Q. Do you have external audits on your supply chains and on product quality? How do you measure product quality?

- ✓ We do not have external audits on our supply chains.
- ✓ For product quality, ISO9001 certified group entities and divisions have external audits.
- ✓ Product quality is measured by defects (number of incidents after sale).

Q. How are the incidents reported?

- ✓ Major incidents are reported and discussed at the monthly Risk Management Committee.

Q. How far up and down the supply chain do you have oversight to?

- ✓ We have oversight to our tier 1 suppliers upstream and direct customers, agents, and distributors downstream in the supply chain.

Q. How do you ensure that your suppliers abide by your code of conduct, and what are the implications if they fail to meet your requirements?

- ✓ Trials of supplier surveys took place in FY2023 as the first step to ensure that our suppliers abide by our code of conduct, with plans to expand in FY2024. Additionally, subscribing to scoring tools provided by an external vendor is scheduled.
- ✓ Implication for low scores is yet to be determined but a standardized rule is not anticipated as other aspects such as relationships with our suppliers would be taken into consideration.

Carbon emissions / environmental management

Q. What are the challenges in cutting emissions? Do you face more challenge in Japan or outside Japan, and why?

- ✓ Challenges are balancing costs with decarbonization initiatives such as switching to renewable energy, and maintaining product quality against eco-friendliness. Since Category 1 of Scope 3 has a large impact, collaboration with our supplies is another challenge. We face more challenges outside Japan as evidenced in the difficulty of obtaining sufficient information.

Q. Is there a board level committee to oversee environmental management and climate related risks and opportunities to the business? How often does the committee meet?

- ✓ Though not at board level, the Sustainability Promotion Committee with some executives oversee environmental management and climate related risks and opportunities to the business.
- ✓ The Committee meets monthly.

Q. Could you share your TCFD scenario analysis, and what will you do with the results where you identify risks and opportunities? How much will you spend to capture these opportunities or avoid such risks, and how do you monitor if you are on track?

- ✓ Results described as “[Actions](#)” in the [TCFD analysis](#) are internally broken down into details for each business unit.
- ✓ Expenditure plans for these initiatives is being put together for the upcoming FY2024 budget.

Monitoring the budget impact is thus forthcoming, but the GHG impact is already being monitored for most initiatives.

Q. Do you have short-term annual carbon reduction targets in addition to the disclosed FY2030 targets? Are the targets certified by SBTi?

- ✓ We have internal milestone targets every 2 years by region, scope, and business unit.
- ✓ The targets are not certified by SBTi, but we intend to apply once comprehensive data is captured. An informal opinion is provided by external consultants that our current targets meet SBTi requirements.

Q. What initiatives are you undertaking to improve manufacturing processes to be more carbon efficient? How do you measure if the initiatives are working?

- ✓ Our main factory in Japan with RFID production has solar panels and CO₂ free power.
- ✓ The printer factory in Vietnam also has solar panels resulting in much reduced CO₂ emissions.
- ✓ Domestic factories are switching to LED equipment, eco-friendly ink and substrates, and reducing plastic packaging.
- ✓ Production of our RFID tags does not involve waste solvents, plastic substrates, and ink ribbons (thus less layers), and recycles waste aluminum. Please refer to P.44 of our [Integrated Report 2022](#).
- ✓ Impact of the respective initiatives is measured by the amount of CO₂ emissions to ensure they are working.

Human capital management

Q. How much are you progressing with automation to reduce labour intensity at your manufacturing sites?

- ✓ Consumables production facilities are more automated compared to printer production. Although we have implemented some automation such as assembling machines for printers, not all automation investments would be economically justified primarily due to limited volume as some degree of customization is often required.
- ✓ About half of FY2022 CAPEX of 6.3 billion yen went to productivity improvement for consumables facilities both in Japan and overseas.

Q. With more than 20 countries/regions of operation, how do you manage different cultures and employee mindsets?

- ✓ Local business culture is widely respected, while we actively promote corporate values to foster unity among our employees on a global basis.
- ✓ The Values Promotion Office was set up in 2016 to promote our corporate values globally through key initiatives, such as workshops held by each subsidiary and the annual Credo World Cup where we recognize outstanding employees who practice our Credo. Some initiatives are available on p.1 of our [integrated report 2022](#).

Q. Are your overseas subsidiaries run by local professionals?

- ✓ Non-Asian subsidiaries are led by local professionals, while those in Asia, including factories, are predominantly headed by Japanese expats, due to the higher presence of Japanese manufacturing clients.

Q. Could you share if there is a formal framework to develop and upskill talent? Do all employees get equal opportunities for promotion?

- ✓ Human resources are our core strategic assets. As we rely on standardized technologies, such as barcodes and RFIDs, to improve customers' productivity, our employees' creativity and diversity to generate best-fit solutions are important.
- ✓ Online Learning Management System is available for all employees as a talent development framework. All the necessary basic information to work for the company is included. Some customized programs are also available depending on subsidiaries. Further information about initiatives made by Japan and Overseas is listed below.
- ✓ Equal promotion opportunities are given to all employees.

Talent development in Japan

- ✓ SATO Campus, a comprehensive career development platform for all employees, was established in FY2021. Further information is available on p.40 of our [integrated report 2023](#).
- ✓ Equal promotion opportunities are secured through the company-wide evaluation system (external software platform) and through discussions in promotion committees.
- ✓ Equal opportunities for self-requested job transfer & rotation (through internship programs, in-house recruitment, etc.)

Talent development overseas

- ✓ HQ in Japan provides common training programs for local heads of subsidiaries. In addition, each subsidiary designs its own training program for its employees.

Q. What are turnover rates in Japan and overseas, and how do they compare with the industry?

Japan

- ✓ 3-year retention rate for new graduate hires was low and we regarded it as an issue. However, the figure jumped from 68.8% in FY2018 to 93.1% in FY2022 thanks to initiatives including OJT training. Further information is available on p.11 of our [integrated report 2023](#).
- ✓ This number is similar to the average in the manufacturing industry.

Overseas

- ✓ The numbers are generally lower than industry average in each country.

Q. Are your employees (all) eligible to variable pay components, as well as non-compensation benefits?

- ✓ Variable pay components are applied to all employees except for some factory workers. The structure varies by each subsidiary.
- ✓ All employees are eligible to non-compensation benefits. The structure varies by each subsidiary.

Q. Do you have a human rights policy that you abide by, and does that include fair treatment of labour, so as to avoid modern slavery?

- ✓ Please refer to our [website on human rights](#).