

Last Updated: June 21, 2017

SATO HOLDINGS CORPORATION

Kazuo Matsuyama, President and CEO
Contact: Yoichi Abe, Chief Financial Officer (CFO)
Securities Code: 6287
<http://www.sato.co.jp/>

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

I. Basic Views on Corporate Governance, Capital Structure, Corporate Attributes and Other Basic Information

1. Basic Views Updated

We at SATO HOLDINGS CORPORATION believe that greater business efficiency and sound management are the keys to realizing sustainable growth and higher enterprise value on a medium- to long-term basis, and strive to manage our business in a highly transparent manner to such ends under a common set of corporate values shared across group companies.

We aim to achieve an effective corporate governance system, working with our Audit & Supervisory Board members to enhance management oversight and appointing executive officers to expedite and streamline decision-making and business execution.

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

[Supplementary Principle 4.1.3 Planning for successors to the CEO and other top executives]

The Company nominates as candidates for CEO individuals who are capable of exercising leadership and adapting the corporate vision to changes in the surrounding business environment without wavering from their convictions formed on the basis of the company’s fundamental reason of existence. The Company principally takes a period of several years to determine whether the candidates are suitable as business leaders or not, while reporting progress regularly to the Nominating Advisory Committee (chaired by an Independent External Director) comprised in majority of External Directors. In the event a new CEO needs to be named, final decisions on the nomination of the next CEO are made by the Board of Directors with the consent of the same committee. We believe this system ensures stronger oversight and greater transparency.

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

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

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

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

[Principle 1.4 Cross-shareholdings]

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

The Company has established a stipulation that requires any shareholdings in another listed entity exceeding 1% of the Company's capital be approved by the Board of Directors. Currently, the Company does not own any such shares.

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

[Principle 1.7 Related party transactions]

When Directors and Audit & Supervisory Board members engage in business transactions with competitors, in dealing with the Company, or in transactions involving conflict of interest with the Company, prior approval must be obtained from the Board of Directors according to board regulations, and their outcomes reported in detail to the Board upon completion. Independent Officers on the Board of Directors shall verify the rationality and appropriateness of such transactions to ensure that they do not harm the interests of the Company or the common interests of our shareholders.

In order to prevent conflicts with the interests of shareholders, all Directors are required to submit written confirmation regarding their execution of business to the Audit & Supervisory Board every year, and report their involvement in related party transactions if any.

[Principle 3.1 Full disclosure]

- (1) The Company makes its management philosophy, target business objectives, and medium-term management plan available to the public via the Company's website and Integrated Report.
(Management philosophy)
<http://www.satoworldwide.com/sato-group/management-philosophy---ceaseless-creativity.aspx>
(Management objectives, Medium-term management plan)
<http://www.satoworldwide.com/investor-relations/management-policy/mid-term-management-plan.aspx>
- (2) The Company makes its basic views on corporate governance available to the public via the Company's website, Securities Report and Integrated Report.
(Basic views on corporate governance)
<http://www.satoworldwide.com/investor-relations/management-policy/corporate-governance.aspx>
- (3) Details regarding policies and procedures for determining remuneration of Directors and Executive Officers are stated in our Supplementary Principle 4.2.1 to the Corporate Governance Code.
- (4) Details regarding policies and procedures for nominating and appointing the CEO and COO, as well as other Directors and Executive Officers, are stated in our Supplementary Principles 4.1.3 and 4.3.1 to the Corporate Governance Code.
- (5) Reasons for the individual appointments of Directors and Audit & Supervisory Board members are provided in the reference documents for the General Meeting of Shareholders.

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

The Board of Directors resolves matters stipulated by laws/regulations and the Articles of Incorporation, and also engages in discussions mainly on important matters related to business strategies and management plans. As External Directors are not expected to possess the same knowledge and insights of the Company's day-to-day business operations as Internal Directors, their involvement in decision making at the Board of Directors meetings is limited to important agendas such as investments accounting for around 1% of total assets (including subsidiaries). The Board of Directors, Executive Management Meeting members, and other Executive Officers ("senior management") execute business within a set of delegated authorities defined by the Company.

[Supplementary Principle 4.2.1 Remuneration of senior management]

Remuneration of the Company's Directors and Executive Officers consists of fixed monetary salary, compensation linked to single-year and long-term business performance, and other corresponding bonuses/benefits. What is included in an individual's remuneration at what proportion is determined based on the individual's position, while the proportion of each component to overall remuneration is set to ensure that interests of management personnel are in accord with those of shareholders. The proportions of remuneration paid in cash and as company's shares are also clearly stated to ensure that such remuneration acts as an incentive for senior management to perform their duties in a manner that generates profits for the Company going forward.

Management personnel are evaluated for their performance against individual targets set on the basis of performance indicators that have been determined by the company. To ensure oversight and transparency, these performance evaluations are submitted to the Compensation Advisory Committee (chaired by an Independent External Director) comprised in majority of External Directors, and it is only with the committee's consent that final decisions on remuneration are made by the Board of Directors.

[Supplementary Principle 4.3.1 Appointment and dismissal of senior management]

Directors and Executive Officers serve for a one-year term as stipulated by the Company, with Representative Directors evaluating appointment and reappointment of the former, and Internal Directors appointment, reappointment and dismissal of the latter, according to their roles and responsibilities fulfilled during their service terms. To ensure oversight and transparency, these performance evaluations are submitted to the Nominating Advisory Committee (chaired by an Independent External Director) comprised in majority of External Directors, and it is only with the committee's consent that the Board of Directors makes the final decisions.

[Principle 4.8 Effective use of Independent External Directors]

The Company, recognizing the importance of gaining objective oversight for its business operations to realize sustainable growth and higher enterprise value on a medium- to long-term basis, named its first External Director in 1999, and has appointed multiple individuals to the role since 2002. Given the growing importance of such governance practices, our Board of Directors is now comprised in majority of External Directors, all of whom are registered as Independent External Directors with the Tokyo Stock Exchange. We maintain the ratio of External Directors to one-third or more of our Board members, appointing diverse individuals based on their knowledge and experience and irrespective of gender, so as to drive growth and enhance enterprise value.

[Principle 4.9 Independence standards and qualification for Independent External Directors]

The Company appoints External Directors on the condition that they identify with and support the company's corporate values and long-term basic strategy, selecting from them Independent External Director candidates according to the independence guidelines set by stock exchanges. Independent External Directors are required to possess sufficient knowledge and experience to ensure that decisions made by the Board of Directors are legitimate and logical. They should also be capable of furnishing advice, proposals and opinions that accord with the common interests of our shareholders from an independent and impartial standpoint.

[Supplementary Principle 4.11.1 Policies and procedures for appointing Directors]

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

[Supplementary Principle 4.11.3 Analysis and evaluation of overall effectiveness of the Board of Directors]

The Board of Directors strives to function effectively and make decisions appropriately by ensuring that senior management provides External Directors information necessary to focus on their audit and supervisory duties. To eliminate risks that may arise from the executive function running the board, Non-executive and External Directors chair the board in rotation, allowing all members the freedom to express their opinions, and external officers more time to voice their opinions the more important a subject becomes.

To improve the Board's effectiveness and functionality, the Company had each director complete a self-evaluation, collating and analyzing the results for discussion at board meetings. Evaluation results showed that the Board, with External Directors raising questions and opinions freely in constructive discussions, is functioning better than ever and maintains its effectiveness in making important management decisions and supervising business execution. For issues identified in these evaluations, we will make it a point to implement changes and continuous improvements so as to further enhance the effectiveness of the Board.

[Supplementary Principle 4.14.2 Training of Directors and Audit & Supervisory Board members]

The Company provides its Directors and Executive Officers with opportunities to learn business management skills from experts and business leaders of other companies, helping them fulfill their roles and responsibilities better by improving their leadership competencies and abilities to develop business strategies. Audit & Supervisory Board members attend seminars held by the Japan Audit & Supervisory Board Members Association and the Company's Accounting Auditor to exchange information and opinions with their counterparts in other companies, allowing them to re-examine their roles/responsibilities and pursue development of necessary skills.

[Principle 5.1 Policy for constructive dialogue with shareholders]

The Company attaches great importance to shareholder dialogue, and strives to answer all questions at the General Meeting of Shareholders without limiting their number or scope (fiscal year) in question.

With regard to IR activities, we hold financial results briefings for institutional investors (twice annually) and business strategy briefings (once annually). Our CEO, CFO, and finance departments also actively host one-on-one meetings with institutional investors, making efforts to reflect their opinions and requests into how we manage our operations so that the Company achieves sustainable growth and higher enterprise value on a medium- to long-term basis.

In addition, we disclose financial summaries, press releases and other IR information and updates on the Company's website, and respond actively to questions from investors.

When engaging in dialogue, the Company observes the quiet period and takes sufficient care to control the handling of material non-public facts or insider information to protect our investors and maintain their trust in the fairness and integrity of the securities market.

2. Capital Structure

Foreign shareholding ratio	More than 30%
----------------------------	---------------

[Status of major shareholders] Updated

Name	Number of Shares Owned	Percentage (%)
Sato Yo International Scholarship Foundation	3,786,200	10.82
Japan Trustee Service Bank, Ltd. (Trust account)	1,606,000	4.59
The Master Trust Bank of Japan, Ltd. (Trust account)	1,394,600	3.99
SATO Employees' Stockholding	1,275,364	3.65
CBNY-Government of Norway	1,262,329	3.61
The Master Trust Bank of Japan, Ltd. (Trust account 9)	1,135,300	3.25
Goldman, Sachs & Co. Reg	1,052,700	3.01
Mieko Yokoi	905,145	2.59
Shizue Sato	897,470	2.56
Arena Co.	854,460	2.44

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

Supplementary explanation Updated

- The Company received a copy of a Report of Possession of Large Volume dated March 7, 2014, from FIL Investments (Japan) Limited, indicating that they own the following number/ratio of our issued shares as of February 28, 2014. This information is not included in the above list as we are unable to verify their actual shareholding as of the end of the fiscal year under review.

Name: FMR LLC

Address: 245 Summer Street, Boston, Massachusetts 02210, USA

Ownership: 1,620,200 shares

Shareholding ratio: 5.06%

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

Name: Dalton Investments LLC

Address: 1601 Cloverfield Blvd., Suite 5050N, Santa Monica, CA 90404 USA

Ownership: 1,896,200 shares

Shareholding ratio: 5.43%

- A Report of Possession of Large Volume made available for public inspection on May 31, 2017, indicated that Norges Bank owns the following number/ratio of our issued shares as of May 25, 2017. This

information is not included in the above list as we are unable to verify their actual shareholding as of the end of the fiscal year under review.

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

3. Corporate Attributes

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

4. Policy for Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

—

5. Special Circumstances Which May Have Material Impact on Corporate Governance

—

II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Business Execution, and Oversight

1. Organizational Composition and Operation

Organization form	Company with Audit & Supervisory Board
-------------------	--

[Directors]

Maximum number of Directors stipulated in Articles of Incorporation	12
Term of office stipulated in Articles of Incorporation	1 year
Chairperson of the board <input type="checkbox"/> Updated	Directors who do not execute business
Number of Directors <input type="checkbox"/> Updated	11
Appointment of External Directors	Yes
Number of External Directors	6
Number of External Directors designated as independent officers <input type="checkbox"/> Updated	6

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

* Categories for "Relationship with the Company"

* "○" when the director presently meets or has recently met the category;

"△" when the director had met the category in the past

* "●" when a close relative of the director presently meets or has recently met the category;

"▲" when a close relative of the director had met the category in the past

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

Name	Independent officer	Supplementary explanation	Reasons for appointment
Ken Suzuki	Yes	Chairman of Vital KSK Holdings, Inc.	<p>[Reasons for appointment as External Director] To apply his extensive experience and broad insights as a corporate manager to management of the Company's business.</p> <p>[Reasons for designation as independent officer] Mr. Suzuki has no disqualifying relationships with the Company as specified in the guidelines concerning listed company compliance, etc., and therefore shall neither control nor be controlled by our senior management to any significant extent. Free of any potential conflict of interests with general shareholders, we deem him capable of fulfilling his expected responsibilities as a separate function from business execution primarily undertaken by Representative Directors, meeting our standards for independent and effective corporate governance.</p>
Yuko Tanaka	Yes	<p>President of Hosei University</p> <p>Professor at the Department of Media and Communication Studies, Faculty of Social Sciences, Hosei University</p> <p>Professor at International Japan-Studies Institute (graduate school), Hosei University</p>	<p>[Reasons for appointment as External Director] To apply her extensive experience and broad insights as president and professor of a university to management of the Company's business.</p> <p>[Reasons for designation as independent officer] Ms. Tanaka has no disqualifying relationships with the Company as specified in the guidelines concerning listed company compliance, etc., and therefore shall neither control nor be controlled by our senior management to any significant extent. Free of any potential conflict of interests with general shareholders, we deem her capable of fulfilling her expected responsibilities as a separate function from business execution primarily undertaken by Representative Directors, meeting our standards for independent and effective corporate governance.</p>
Ryoji Itoh	Yes	<p>Representative Director of Planet Plan Co., Ltd.</p> <p>Project Professor at the Graduate School of Media and Governance, Keio University</p>	<p>[Reasons for appointment as External Director] To apply his extensive experience and broad insights as corporate manager and graduate school professor to management of the Company's business.</p> <p>[Reasons for designation as independent officer] Mr. Itoh has no disqualifying relationships with the Company as specified in the guidelines concerning listed company compliance, etc., and therefore shall neither control nor be controlled by our senior management to any significant extent. Free of any potential conflict of interests with general shareholders, we deem him capable of fulfilling his expected responsibilities as a separate function from business execution primarily undertaken by Representative Directors, meeting our standards for independent and effective corporate governance.</p>

Name	Independent officer	Supplementary explanation	Reasons for appointment
Mitsuaki Shimaguchi	Yes	<p>Professor Emeritus of Keio University</p> <p>President of Japan Marketing Association</p>	<p>[Reasons for appointment as External Director] To apply his professional knowledge and extensive experience in the marketing field and his broad insights as a university professor to management of the Company's business.</p> <p>[Reasons for designation as independent officer] Mr. Shimaguchi has no disqualifying relationships with the Company as specified in the guidelines concerning listed company compliance, etc., and therefore shall neither control nor be controlled by our senior management to any significant extent. Free of any potential conflict of interests with general shareholders, we deem him capable of fulfilling his expected responsibilities as a separate function from business execution primarily undertaken by Representative Directors, meeting our standards for independent and effective corporate governance.</p>
Hideo Yamada	Yes	<p>Attorney at law</p> <p>President of Yamada & Ozaki Law Office</p> <p>President of Akiko Tachibana Memorial Foundation</p>	<p>[Reasons for appointment as External Director] To apply his professional knowledge, extensive experience and broad insights as an attorney at law to management of the Company's business.</p> <p>[Reasons for designation as independent officer] Mr. Yamada has no disqualifying relationships with the Company as specified in the guidelines concerning listed company compliance, etc., and therefore shall neither control nor be controlled by our senior management to any significant extent. Free of any potential conflict of interests with general shareholders, we deem him capable of fulfilling his expected responsibilities as a separate function from business execution primarily undertaken by Representative Directors, meeting our standards for independent and effective corporate governance.</p>

Name	Independent officer	Supplementary explanation	Reasons for appointment
Chieko Matsuda	Yes	<p>Professor at Graduate School of Social Sciences, Tokyo Metropolitan University</p> <p>Professor at Faculty of Urban Liberal Arts, Tokyo Metropolitan University</p> <p>Senior Researcher of Japan Association for Chief Financial Officers</p>	<p>[Reasons for appointment as External Director] To apply her global experience and achievements in foreign-affiliated companies as well as her professional knowledge and deep insights as a serving graduate school professor to management of the Company's business.</p> <p>[Reasons for designation as independent officer] Ms. Matsuda has no disqualifying relationships with the Company as specified in the guidelines concerning listed company compliance, etc., and therefore shall neither control nor be controlled by our senior management to any significant extent. Free of any potential conflict of interests with general shareholders, we deem her capable of fulfilling her expected responsibilities as a separate function from business execution primarily undertaken by Representative Directors, meeting our standards for independent and effective corporate governance.</p>

Presence of discretionary committee(s) equivalent to Nominating or Compensation Committees <input type="checkbox"/> Updated	Yes
---	-----

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

	Committee's name	Total committee members	Full-time members	Internal Directors	External Directors	External Experts	Others	Chairperson
Committee equivalent to Nominating Committee	Nominating Advisory Committee	4	1	1	3	0	0	External Director
Committee equivalent to Compensation Committee	Compensation Advisory Committee	4	1	1	3	0	0	External Director

Supplementary explanation Updated

Each advisory committee consists of four members — three External Directors and the CEO — and is chaired by an External Director. The Nominating Advisory Committee reviews policies for appointing Directors/Executive Officers and candidates nominated for these positions, while the Compensation Advisory Committee reviews remuneration (plan, standard and amount) for Directors/Executive Officers, so as to offer objective and impartial advice to the Board of Directors. Decisions within these committees are made by the External Directors and reported to the Board accordingly.

[Audit & Supervisory Board members]

Establishment of Audit & Supervisory Board	Yes
--	-----

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

Cooperation among Audit & Supervisory Board members, Accounting Auditor and Internal Audit Department
 Updated

- Audit & Supervisory Board members, Accounting Auditor and Internal Audit Department set up meetings with our CEO, COO and CFO on an annual basis, creating ample opportunities to exchange information on the progress of the medium-term management plan, business environment and various risks.
- Our Audit Department supports the Accounting Auditor in matters such as internal control on the basis of internal audit rules, and the Accounting Auditor, in turn, collaborates with the Audit & Supervisory Board members for accounting audits and quarterly reviews.

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

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

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

* Categories for "Relationship with the Company"

* "○" when the audit & supervisory board member presently meets or has recently met the category;

"△" when the audit & supervisory board member had met the category in the past

* "●" when a close relative of the audit & supervisory board member presently meets or has recently met the category;

"▲" when a close relative of the audit & supervisory board member had met the category in the past

- Executive (a person who executes business; definition effective through (m) below) of the listed company or its subsidiary
- Non-executive director or accounting advisor of the listed company or its subsidiary
- Non-executive director or executive of the parent company of the listed company
- Audit & supervisory board member of the parent company of the listed company
- Executive of a fellow subsidiary of the listed company
- Party or an executive thereof whose major client or supplier is the listed company
- Major client or supplier of the listed company or an executive thereof
- Consultant, accounting professional or legal professional who receives a large amount of monetary consideration or other property from the listed company besides compensation as its audit & supervisory board member
- Major shareholder of the listed company (or an executive of the said major shareholder if it is a corporation)
- Executive of a client or supplier (which does not correspond to any of f., g., or h.) of the listed company (Applies only to the audit & supervisory board member him/herself)
- Executive of a company with which the listed company agrees to appoint external directors to each other (Applies only to the audit & supervisory board member him/herself)

1. Executive of a company that receives donation from the listed company (Applies only to the audit & supervisory board member him/herself)
- m. Others

Name	Independent officer	Supplementary explanation	Reasons for appointment
Takao Yamaguchi	Yes	Certified Public (Tax) Accountant Yamaguchi C.P.A. Office	<p>[Reasons for appointment as External Audit & Supervisory Board member] To apply his professional knowledge and experience as a certified public (tax) accountant to management of the Company's business.</p> <p>[Reasons for designation as independent officer] Mr. Yamaguchi has no disqualifying relationships with the Company as specified in the guidelines concerning listed company compliance, etc., and therefore shall neither control nor be controlled by our senior management to any significant extent. Free of any potential conflict of interests with general shareholders, we deem him capable of fulfilling his expected responsibilities as a separate function from business execution primarily undertaken by Representative Directors, meeting our standards for independent and effective corporate governance.</p>
Noriko Yao	Yes	Attorney at law Partner of TMI Associates	<p>[Reasons for appointment as External Audit & Supervisory Board member] To apply her professional knowledge, extensive experience and broad insights as an international attorney at law to management of the Company's business.</p> <p>[Reasons for designation as independent officer] Ms. Yao has no disqualifying relationships with the Company as specified in the guidelines concerning listed company compliance, etc., and therefore shall neither control nor be controlled by our senior management to any significant extent. Free of any potential conflict of interests with general shareholders, we deem her capable of fulfilling her expected responsibilities as a separate function from business execution primarily undertaken by Representative Directors, meeting our standards for independent and effective corporate governance.</p>

[Independent officers]

Number of independent officers	8
--------------------------------	---

Matters relating to independent officers

- All of the Company's six External Directors (of which two are women) and two External Audit & Supervisory Board members (one woman) are independent officers.
- External Directors hold opinion exchange sessions on a regular basis, allowing themselves to engage in useful discussions and share information on business management issues away from the significant control of corporate managers and from perspectives independent of business execution. Where necessary, the outcomes of their deliberations are reported or proposed at the Board of Directors meetings to facilitate decision making and resolve problems.

[Incentives]

Implementation of measures to provide incentives to Directors <input type="checkbox"/> Updated	Performance-based stock compensation plan / stock option plan
--	---

Supplementary explanation Updated

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

- Stock compensation-type stock option plan
<Past issuance of new stock acquisition rights>

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

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

- Performance-based stock compensation plan

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

Amount and details of compensation in the Plan

1. Individuals subject to Delivery, etc. of Company Shares, etc. (Subjects of Plan):
Directors, etc.
2. Effects of subject shares of the Company on the Company's aggregate number of issued shares:
Maximum amount of money contributed by the Company:
 - A total of ¥600 million for five fiscal years.Maximum number of Company Shares, etc. to be acquired by Subjects of Plan, and method of acquisition:
 - Maximum points that can be allocated to Subjects of Plan shall be 60,000 points per year.
 - Number of shares equivalent to the maximum points shall be 60,000 shares per year or a total of 300,000 shares over five years.
 - Ratio of the maximum number of shares to the total number of shares issued (as of March 31, 2016) is approximately 0.85%.*Ratio of the number of shares per year to the total number of issued shares is approximately 0.17%.
 - Shares of the Company are acquired from the stock market or from the Company (disposition of treasury shares).
3. Method of calculating the number of Company Shares, etc. acquired by Subjects of Plan (Plan index):
 - Varies based on the employment position of the Subject of Plan and the Company's degree of achievement of performance goals (consolidated operating profit, etc.) for each fiscal year set forth in the medium-term management plan, etc.
4. Timing of Delivery, etc. of Company Shares, etc. to Subjects of Plan:
 - After the completion of the trust period (every five fiscal years).
 - At the point when the Subjects of Plan leave their posts during the trust period (or when an Internal Director serving concurrently as Executive Officer or an Executive Officer switching to directorship lose both of their statuses of Internal Director and Executive Officer).
 - At the point when Subjects of Plan become Non-residents during the trust period.

Recipients of stock options	Internal Directors, employees
-----------------------------	-------------------------------

Supplementary explanation

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

[Director remuneration]

Disclosure of individual Directors' remuneration	No
--	----

Supplementary explanation Updated

Total remuneration of Directors in fiscal 2016 amounted to ¥250 million.

Presence of policy for determining remuneration amounts or calculation methods	No
--	----

Disclosure of policy for determining remuneration amounts or calculation methods

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

- The Company does not have departments or personnel specifically dedicated to assisting External Directors and External Audit & Supervisory Board members in their duties.
- The Board of Directors' Secretariat and relevant departments furnish materials prior to board meetings, explaining details of selected agendas in advance where necessary.
- The Company maintains a framework that enables meeting minutes, records of resolution such as internal approval forms, and other important documents to be shared at any time.

- Our full-time Audit & Supervisory Board members attend important company meetings and provide necessary reports to the External Audit & Supervisory Board members at their regular meetings.
- The Company provides information releases, annual Integrated Reports, in-house newsletters and other such materials.

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

The Company implements an Audit & Supervisory Board system and an Executive Officer system, separating the functions of managerial decision-making, oversight and operational execution function to expedite decisions on company management.

As our Board of Directors currently has six External Directors among its 11 members, it is able to offer opinions and suggestions from an independent perspective to strengthen management oversight. In addition, the Board does not set hierarchical relationships among Directors to ensure impartial deliberations, and rotates chairmanship among Directors (including External Directors) who do not concurrently serve as Executive Officers.

Our Board of Directors and Executive Management Meeting (comprised of Directors, Audit & Supervisory Board members, Executive Officers and other senior executives) review and make decisions for business execution across the SATO Group, with the former handling important matters for company management according to the Companies Act of Japan, and the latter other major issues.

3. Reasons for Adopting the Current Corporate Governance System Updated

The Company believes that greater business efficiency and sound management are the keys to realizing sustainable growth and higher enterprise value on a medium- to long-term basis, and strives to manage business in a fair and highly transparent manner to live up to this belief and to the trust stakeholders and society place in us.

Currently, six of our 11 Directors are External Directors (of which two are women), who are all independent officers.

When the Board of Directors meet, members engage in useful discussions and share information on business management issues to contribute perspectives that are independent of business execution and are based on their professional knowledge and wealth of experience.

External Directors also hold opinion exchange sessions on a regular basis, and the outcomes of their deliberations are reported or proposed at board meetings where necessary to facilitate decision making and resolve problems.

Going forward, we will continue efforts to achieve a strong and effective corporate governance system.

III. Implementation of Measures for Shareholders and Other Stakeholders

1. Measures to Vitalize the General Meeting of Shareholders and Allow Voting Rights to Be Exercised smoothly

Updated

	Supplementary explanation
Early notification of General Meeting of Shareholders (convocation notice)	The Company sends out the Notice of the General Meeting of Shareholders at least three days ahead of the legal minimum notice period of two weeks. We will strive further to send early notifications.
Scheduling General Meetings of Shareholders to avoid the peak day	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 2017 was held on June 20.
Allowing electromagnetic voting	Since 2014, the Company has been using online voting for our General Meeting of Shareholders, accepting votes through electromagnetic means (personal computer, smartphone or other portable phone).
Participating in electronic voting platform and other improvements in how institutional investors vote	Since 2014, the Company has been using the electronic voting platform services operated by ICJ, Inc. for our General Meeting of Shareholders to ensure that institutional investors have sufficient time to conduct review.
Providing convocation notice (summary) in English	The Company posts an English-translated summary of the convocation notice on websites of the Company and the Tokyo Stock Exchange.
Others	The Company posts the Japanese convocation notice and its English-translated summary on websites of the company and the Tokyo Stock Exchange prior to sending them to our shareholders. Since 2010, we have made voting results available to the public via the company's website and Extraordinary Reports.

2. IR Activities Updated

	Supplementary explanation	Explanation by representative
Regular briefings for individual investors	The Company attaches great importance to shareholder dialogue, and strives to answer all questions at the General Meeting of Shareholders without limiting their number or scope (fiscal year) in question.	Yes
Regular briefings for analysts and institutional investors	The Company holds a business strategy briefing and two financial results briefings every year. We also hold approximately 250 individual IR meetings annually, seeking to achieve sustainable growth and higher enterprise value on a medium- to long-term basis.	Yes
Regular briefings for overseas investors	Since 2012, the CEO has led visits to institutional investors in Europe to meet with them one-on-one and furnish explanations on overall business activity, our medium-term management plan and its progress. Visits have come to include the U.S. as well, starting 2013.	Yes
Posting of IR materials on website	The Company uploads materials including our management philosophy, target business objectives, medium-term management plan, statutory and voluntary disclosure materials (Notice of the General Meeting of Shareholders, Securities Report, and Semiannual Report), financial results reports (Japanese and English), annual Integrated Reports (Japanese and English), and information releases. We also operate an e-mail service offering IR information and updates including financial summaries and press releases to interested parties through the Company's website, and actively respond to IR-related questions from individual investors.	
Establishment of department and/or manager in charge of IR	The CFO and finance departments are in charge of IR. See Section I [Principle 5.1] for details.	

3. Measures to Ensure Due Respect for Stakeholders Updated

	Supplementary explanation
Implementation of environmental activities, CSR activities, etc.	The SATO Group offers products to help customers reduce their impact on the environment. In addition to reducing paper raw materials, we have developed and released products such as NONSEPA [®] linerless labels that are produced without release liners and leave no liner waste to be disposed of or incinerated, and ECONANO [®] , the world's first labels capable of absorbing and reducing CO ₂ emissions when they are incinerated. These environmentally friendly products are being used by many business establishments. We are also working to convert a variety of non-recyclable materials other than labels into ECONANO [®] —vinyl bags and stretch films for wrapping cargo—to ensure that we play a constant role in shaping the environmental performance of our customers. In December 2012, we became the first company in the Japanese label industry to obtain the Carbon Footprint of Products certification which allows us to display how much CO ₂ a product emits over its life cycle.

	Supplementary explanation
Formulation of policies on providing information to stakeholders	See Section I [Principle 3.1] for details.
Others	<ul style="list-style-type: none"> • The Group aims to achieve globalization and maximization of customer value, and makes efforts to integrate diversity and inclusion into our management practices under our vision of becoming the leader in the Auto-ID solutions industry worldwide. We endeavor to respect individual differences and strengths, generate innovative ideas to stay competitive in the global marketplace, and continue to evolve our business to better address diverse values and needs of customers around the world. • We are also focusing efforts on supporting the active engagement of female employees, which involves creating a workplace environment that allows all to work with peace of mind while maintaining work-life balance even with childcare and other commitments. Currently, two of our six External Directors, one of our two External Audit & Supervisory Board members, and three (of which two are non-Japanese) of our 19 Executive Officers (excluding those concurrently serving as Directors) are women. In addition, we have signed a declaration, which is 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. We aim to raise the ratio of our female managers in Japan to 25% by 2020 from the current 7.5%. • In July 2015, we launched a full-scale wellness management scheme to improve the health of all employees in line with our positioning of promoting employee health as a corporate management strategy.

IV. Matters Related to Internal Control System

1. Basic Views on Internal Control System and Progress of System Development

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

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

We shall set down the necessary compliance policies to foster awareness of legal compliance under a common set of corporate values shared across group companies.

Using Teiho (OIP Report (Original ideas Innovation Proposals Report)), our very own knowledge management system, we shall maintain and enhance a transparent framework that involves the participation of all employees in business management, based on our culture of sharing information and reporting.

We shall also establish points of contact for group employees to report any potential compliance violations.

The Company's Audit Department shall conduct audits on subsidiaries to ensure compliance with laws/regulations and internal rules.

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

Minutes of important meetings and records of important resolutions shall be stored and managed properly in accordance with document control standards and internal approval regulations.

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

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

The Company's Risk Management Committee shall meet regularly to ensure proactive risk management across subsidiaries.

The committee shall identify risks, determine preventive measures to hedge risks, and discuss and decide on the necessary responses should such risks occur or become likely to occur.

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

We shall drive the understanding of and compliance with the Group's medium-term management plan that is formulated under a long-term basic strategy. The plan shall be translated into tangible strategies with their progress monitored regularly.

Such information on plan implementation status shall be shared at meetings attended by the senior management of the Company and its key group companies to facilitate the execution of their duties.

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

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

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

Should the Audit & Supervisory Board request, we shall discuss about and decide on assigning employees to assist them in their auditing duties.

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

Transfers, performance evaluations or other personnel-related actions for employees assisting the Audit & Supervisory Board shall be decided respecting the opinion of the same board to ensure their independence

from Directors and Executive Officers. These employees shall follow the instructions and directions of Audit & Supervisory Board members when assisting with auditing duties.

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

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

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

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

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

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

In accordance with internal whistleblowing rules, we prohibit anyone from giving disadvantageous treatment to whistleblowers.

The Audit & Supervisory Board shall handle and manage reported information in an appropriate manner.

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

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

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

Audit & Supervisory Board members shall have the right to attend important meetings to listen to reports on the execution of business operations by the Company's Directors and employees, and at the same time, peruse meeting minutes and records of important resolutions.

The Audit & Supervisory Board shall have full authority over the auditing of group companies.

2. Basic Views on Eliminating Anti-Social Forces and Progress of Related Efforts

The SATO Group shall act in accordance with laws and not yield to anti-social forces, taking a resolute stance in refusing any relationships with them by establishing necessary internal regulations as part of our corporate social responsibility.

We shall set up a department that handles such matters, and collect information from related government agencies and external specialists.

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

V. Other

1. Adoption of Anti-Takeover Measures

Adoption of anti-takeover measures	Not adopted
------------------------------------	-------------

Supplementary explanation

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

2. Other Matters Concerning Corporate Governance System

The Company will maintain and enhance its business management framework in accordance with the SATO Group's Basic Policy on Internal Control aforementioned.

