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Securities code: 8130  
May 31, 2023

**To Our Shareholders:**

Shosuke Yasuda,  
Representative Director, President  
and CEO  
Sangetsu Corporation  
1-4-1 Habashita,  
Nishi-ku, Nagoya, Japan

## **CONVOCATION NOTICE OF THE 71ST ORDINARY GENERAL MEETING OF SHAREHOLDERS**

We would like to announce the 71st Ordinary General Meeting of Shareholders (the “Meeting”) of Sangetsu Corporation (the “Company”) to be held as indicated below.

In convening this Meeting, the Company has electronically provided information contained in the reference materials for the general meeting of shareholders, etc. (the “matters subject to electronic provision”) and posted the information on the following websites. Please access any of these websites to review the information.

[The Company’s website]

[https://www.sangetsu.co.jp/company/ir/share\\_info/meeting.html](https://www.sangetsu.co.jp/company/ir/share_info/meeting.html) (in Japanese)

[Website for General Meeting of Shareholders Materials]

<https://d.sokai.jp/8130/teiji/> (in Japanese)

**If you do not attend the Meeting, you may exercise your voting rights via the Internet or in writing, and please refer to the Reference Materials for the General Meeting of Shareholders, and follow the guidance on page 3 to finish exercising your voting rights by 5:30 p.m. on Tuesday, June 20, 2023, Japan time.**

Thank you very much for your cooperation.

- 1. Date and Time:** June 21, 2023 (Wednesday) at 10:00 a.m. Japan time (Reception starts at 9:00 a.m.)
- 2. Place:** Hall, 6th floor of the Main Building of the Company’s Head Office, 1-4-1 Habashita, Nishi-ku, Nagoya, Japan
- 3. Meeting Agenda:**
  - Report matters:**
    1. The Business Report and the Consolidated Financial Statements for the 71st term (April 1, 2022 to March 31, 2023) and the results of audits of the Consolidated Financial Statements by the Accounting Auditor and the Audit and Supervisory Committee
    2. Non-consolidated Financial Statements for the 71st term (April 1, 2022 to March 31, 2023)

**Resolution matters:**

**Proposal 1:** Appropriation of Surplus

**Proposal 2:** Election of Two (2) Directors (Excluding Audit and Supervisory Committee Members)

**Proposal 3:** Election of Five (5) Directors Serving as Audit and Supervisory Committee Members

**Proposal 4:** Election of Accounting Auditor

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- If you plan to attend the Meeting, please submit the enclosed Voting Right Exercise Form to the receptionist at the Meeting.
  - Any amendments to the matters subject to electronic provision will be announced in a notice to that effect and the matters before and after the amendments will be posted on each of the above websites.
  - Shareholders who have requested the delivery of paper documents will also receive a document that includes the matters subject to electronic provision.

## **Instructions Concerning the Exercise of Voting Rights**

The exercise of voting rights in the Ordinary General Meeting of Shareholders is the important right of all shareholders with votes.

Please review the Reference Materials for the General Meeting of Shareholders on the following pages and exercise your voting rights.

You may exercise your voting rights by one of the following three methods:

By exercising voting rights via the Internet

Follow the on-screen instructions to indicate your approval or disapproval to each of the proposals.

Exercise due date: No later than June 20, 2023 (Tuesday) at 5:30 p.m.

By attending the shareholders' meeting

If you plan to attend the Meeting, please submit the enclosed Voting Right Exercise Form to the receptionist at the Meeting.

Date and Time: June 21, 2023 (Wednesday) at 10:00 a.m.

By exercising voting rights in writing (by mail)

Please indicate your approval or disapproval to each of the proposals on the Voting Right Exercise Form and return it to the Company.

Exercise due date: To be received no later than June 20, 2023 (Tuesday) at 5:30 p.m.

**If you have questions about the use of a PC or smartphone**

**for exercising voting rights via the Internet, please contact:**

(Help Desk) Transfer Agent Department, Mitsubishi UFJ Trust and Banking Corporation

Phone: 0120-173-027 (from 9:00 a.m. to 9:00 p.m., toll free, only in Japan)

Institutional investors may use the electronic voting rights execution platform operated by the Investor Communications Japan (ICJ) Inc.

## Reference Materials for the General Meeting of Shareholders

### Proposal 1: Appropriation of Surplus

We propose to appropriate surplus as follows.

Based on its Medium-term Business Plan (2020-2022) 【 D.C. 2022 】 , the Company's Shareholder Return Strategy is to achieve a total return ratio of almost 100% over the three years from FY2020 to FY2022, and to make decisions concerning dividends once it has identified the impact of COVID-19 on business performance, in accordance with the basic policy of steadily increasing dividends. Based on this policy, the Company intends to carry out appropriation of surplus for the current period as follows in order to recognize the continuing support of shareholders, in light of business results in the current period, future business development and other such considerations.

#### Matters concerning the year-end dividend

- 1) Type of dividend assets: We will pay in cash.
- 2) Matters concerning assignment of dividend assets and amounts thereof  
We propose the year-end dividend of ¥65.00 per common share of the Company.  
The total amount of dividend will be ¥3,814,242,380.  
The annual dividend for the current fiscal year amounted to ¥105.00 per share including the amount of interim dividend.
- 3) Effective date of distribution of surplus  
We propose the effective date of dividend to be June 22, 2023.

**Proposal 2: Election of Two (2) Directors (Excluding Audit and Supervisory Committee Members)**

The two (2) Directors (excluding Audit and Supervisory Committee Members (here and elsewhere in this proposal)) shall complete their terms of office at the closing of this General Meeting of Shareholders. Accordingly, the election of two (2) Directors shall be requested.

The candidates for Directors are as follows:

Candidate No.	Attribute of candidate	Name	Current positions and responsibilities	Attendance rate of Board of Directors' meetings
1	[Reelected]	Shosuke Yasuda	Representative Director, President and CEO	15/15 100%
2	[Newly elected]	Yasumasa Kondo	Executive Officer in charge of administration and Cyber Security	—

No.	Name (Date of birth)	Career summary, positions, responsibilities, and significant concurrent positions	Number of shares of the Company held
1	Shosuke Yasuda (March 2, 1950)  [Reelected]	<p>April 2004 Executive Vice President and Division COO, Functional Chemicals Division of Mitsubishi Corporation</p> <p>April 2008 Executive Vice President and General Manager of Chubu Branch of Mitsubishi Corporation</p> <p>April 2012 Executive Vice President of Mitsubishi Corporation</p> <p>June 2012 Director of the Company</p> <p>April 2014 Representative Director and President</p> <p>July 2014 Representative Director and President, and General Manager of the Interior Business Unit</p> <p>April 2016 Representative Director, President and CEO, and General Manager of the Interior Business Unit</p> <p>April 2019 Representative Director, President and CEO (To present)</p> <p>(Significant concurrent positions) Chairman of the Board of Directors of Koroseal Interior Products Holdings, Inc. Director of Goodrich Global Holdings Pte. Ltd.</p> <p>Reasons for nomination as candidate for Director After taking office as Representative Director and President of the Company in 2014, Mr. Shosuke Yasuda achieved the quantitative target of consolidated profit attributable to owners of parent of ¥6,300 million for FY2016 stipulated in the Medium-term Business Plan, which he played a central role in formulating. Subsequently, in the Medium-term Business Plan announced in 2017, he had advanced a business strategy for realizing sustainable growth of the existing businesses by strengthening functions through methods such as reforming sales structure and redistributing logistics centers. At the same time, he had laid the ground work for the growth in the future by expanding business geographically. In addition to expanding earnings through qualitative growth of core business and monetizing next-generation business based on resources of core business in the Medium-term Business Plan announced in May 2020, he has also set quantitative targets to solve the social issues raised in the SDGs, and achieved each of the quantitative targets in terms of economic and social value. He also implemented capital policy such as a financial policy to improve capital efficiency, an active shareholder return policy, and a capital allocation policy since he assumed office. Given these experiences and achievements, the Company deemed that he is well qualified to continue to serve as a Director.</p> <p>Attendance to the Meeting of the Board of Directors held in FY2022: 15/15</p>	114,700 shares

No.	Name (Date of birth)	Career summary, positions, responsibilities, and significant concurrent positions	Number of shares of the Company held
2	Yasumasa Kondo (December 22, 1963)  [Newly elected]	<p>April 1986      Joined Mitsubishi Corporation</p> <p>April 2010      Executive Officer of Mitsubishi Corporation Plastics Ltd. (Secondment)</p> <p>April 2013      General Manager of Synthetic Resin Department and Poly Vinyl Chloride Department of Mitsubishi Corporation</p> <p>April 2016      General Manager of Investment, Chemical Group CEO Office of Mitsubishi Corporation</p> <p>April 2017      Managing Executive Director of Chuo Kagaku Co., Ltd.</p> <p>April 2018      Representative Director, President of Chuo Kagaku Co., Ltd.</p> <p>December 2022      Joined the Company Executive Officer in charge of President's Office</p> <p>April 2023      Executive Officer in charge of administration and Cyber Security (To present)</p> <p>Reasons for nomination as candidate for Director Mr. Yasumasa Kondo was engaged in domestic and overseas petrochemicals operations at a major trading company and was also previously involved in the management of a listed company and has extensive knowledge and experience in overall corporate management. Since joining the Company, he has been working as an Executive Officer in charge of administration to strengthen departments including the president's office, general affairs, human resources, information systems, management audit, and others. Given these experiences and achievements, the Company deemed that he is well qualified to serve as a Director.</p>	834 shares

- (Notes)
1. There is no special interest between each candidate and the Company.
  2. The Company adopted an executive officer system as of April 1, 2016.
  3. Opinion of the Audit and Supervisory Committee related to the election of Directors  
With regard to the election of Directors other than the Audit and Supervisory Committee Members, the Nomination and Remuneration Committee attended by all Outside Directors serving as Audit and Supervisory Committee Members made a preliminary review. Subsequently, the Audit and Supervisory Committee determined that each candidate is appropriate and qualified to be entrusted with the enhancement of the medium- to long-term corporate value through deliberate considerations in light of such factors as their insight, experience, and capabilities.
  4. The Company has concluded a directors and officers liability insurance policy with an insurance company as stipulated in Article 430-3, paragraph 1 of the Companies Act of Japan. The insurance policy covers damages that may arise when the insured assumes liability for the execution of his or her duties or receives a claim related to the pursuit of such liability. If each candidate is elected and assumes the position of Director, each candidate will be included as the insured under this insurance policy. The Company plans to renew the insurance policy at the next renewal date with the same terms and conditions.

### Proposal 3: Election of Five (5) Directors Serving as Audit and Supervisory Committee Members

The five (5) Directors serving as Audit and Supervisory Committee Members shall complete their terms of office at the closing of this General Meeting of Shareholders. Accordingly, the election of five (5) Directors serving as Audit and Supervisory Committee Members shall be requested.

The agreement of the Audit and Supervisory Committee has been received for this proposal.

The candidates for Directors serving as Audit and Supervisory Committee Members are as follows:

Candidate No.	Attribute of candidate	Positions and responsibilities	Name		Attendance rate of Board of Directors' meetings	Attendance rate of Audit & Supervisory Committee meetings
1	[Reelected]	Director (Audit and Supervisory Committee Member)	Masatoshi Hatori	[Outside] [Independent]	15/15 100%	17/17 100%
2	[Reelected]	Director (Audit and Supervisory Committee Member)	Michiyo Hamada	[Outside] [Independent] [Female]	15/15 100%	17/17 100%
3	[Reelected]	Director (Audit and Supervisory Committee Member)	Kenichi Udagawa	[Outside] [Independent]	15/15 100%	17/17 100%
4	[Reelected]	Director (Audit and Supervisory Committee Member)	Osamu Terada	[Outside] [Independent]	15/15 100%	17/17 100%
5	[Reelected]	Director (Full-Time Audit and Supervisory Committee Member)	Shuji Sasaki		15/15 100%	17/17 100%



No.	Name (Date of birth)	Career summary, positions, responsibilities, and significant concurrent positions	Number of shares of the Company held
1	Masatoshi Hatori (July 24, 1946)  [Reelected] [Outside] [Independent]	<p>June 2003 Director of Kanegafuchi Chemical Industry Company Limited (current KANEKA CORPORATION)</p> <p>June 2005 Executive Director of KANEKA CORPORATION</p> <p>June 2006 Director and Managing Executive Officer of KANEKA CORPORATION</p> <p>April 2008 Director and Senior Managing Executive Officer of KANEKA CORPORATION</p> <p>June 2010 Executive Vice President and Representative Director of KANEKA CORPORATION</p> <p>June 2014 Special Advisor of KANEKA CORPORATION</p> <p>June 2015 Outside Director (Audit and Supervisory Committee Member) of the Company (To present)</p> <p>June 2016 Advisor of KANEKA CORPORATION</p> <p>June 2018 Retired from Advisor of KANEKA CORPORATION</p>	0 shares
		<p>Reasons for nomination as candidate for Outside Director serving as Audit and Supervisory Committee Member</p> <p>Mr. Masatoshi Hatori possesses a wealth of experience and keen, specialist insight related to not only various materials businesses, but also processing business as an individual with experience as a representative director of a listed company (materials manufacturer). In addition to actively providing opinions on corporate management and opinions regarding the Company's vision in the market at Board of Directors' meetings and the like, he also plays a role in the supervision and auditing of management. The Company has deemed that Mr. Hatori's insight can continue to be utilized in company management and requests that he be elected as an Outside Director serving as Audit and Supervisory Committee Member.</p> <p>[Supplementary explanation to the independence] From March 2000 to March 2003, Mr. Masatoshi Hatori served as the Representative Director &amp; President of FUSOGOSEI Co., Ltd., a business partner of the Company. However, over 20 years have passed since he resigned from said company and he therefore fulfills the Company's Standards of Independence for Outside Directors and the Company has deemed that there are no issues regarding his independence.</p>	

No.	Name (Date of birth)	Career summary, positions, responsibilities, and significant concurrent positions	Number of shares of the Company held
2	<p data-bbox="331 524 544 577">Michiyo Hamada (November 25, 1947)</p> <p data-bbox="376 607 499 703">[Reelected] [Outside] [Independent] [Female]</p>	<p data-bbox="580 239 1198 685"> April 1985 Law professor at Nagoya University  April 1999 Professor of Nagoya University Graduate School of Law  April 2008 President of Nagoya University School of Law  April 2009 Professor emeritus of Nagoya University (To present)  Commissioner of Japan Fair Trade Commission  June 2015 Outside Director (Audit and Supervisory Committee Member) of the Company (To present)  (Significant concurrent positions)  Outside Board Member of AISIN CORPORATION (former Aisin Seiki Co., Ltd.)  Outside Director of Toho Gas Co., Ltd. </p> <p data-bbox="580 689 1369 990"> Reasons for nomination as candidate for Outside Director serving as Audit and Supervisory Committee Member  Ms. Michiyo Hamada possesses a wealth of experience and keen, specialist insight as a scholar of corporate law and ex-commissioner of the Japan Fair Trade Commission. In addition to actively providing opinions on corporate law and opinions regarding the Company's efforts to promote women's participation and advancement in the workplace at Board of Directors' meetings and the like, she also plays a role in the supervision and auditing of management. The Company has deemed that Ms. Hamada's insight can continue to be utilized in company management and requests that she be elected as an Outside Director serving as Audit and Supervisory Committee Member. </p>	0 shares

No.	Name (Date of birth)	Career summary, positions, responsibilities, and significant concurrent positions	Number of shares of the Company held														
3	Kenichi Udagawa (April 5, 1949)  [Reelected] [Outside] [Independent]	<table border="1"> <tr> <td data-bbox="576 232 767 264">June 2004</td> <td data-bbox="767 232 1238 264">Director of Tosoh Corporation</td> </tr> <tr> <td data-bbox="576 264 767 295">June 2008</td> <td data-bbox="767 264 1238 295">Managing Director of Tosoh Corporation</td> </tr> <tr> <td data-bbox="576 295 767 327">June 2009</td> <td data-bbox="767 295 1238 327">President of Tosoh Corporation</td> </tr> <tr> <td data-bbox="576 327 767 389">March 2016</td> <td data-bbox="767 327 1238 389">Director and Corporate Advisor of Tosoh Corporation</td> </tr> <tr> <td data-bbox="576 389 767 421">June 2018</td> <td data-bbox="767 389 1238 421">Honorary Advisor of Tosoh Corporation</td> </tr> <tr> <td data-bbox="576 421 767 483">June 2019</td> <td data-bbox="767 421 1238 483">Retired from Honorary Advisor of Tosoh Corporation</td> </tr> <tr> <td data-bbox="576 483 767 546">June 2019</td> <td data-bbox="767 483 1238 546">Outside Director (Audit and Supervisory Committee Member) of the Company (To present)</td> </tr> </table> <p data-bbox="576 546 1238 916">           Reasons for nomination as candidate for Outside Director serving as Audit and Supervisory Committee Member            Mr. Kenichi Udagawa has contributed to the establishment and expansion of various overseas businesses in addition to the establishment of the production and manufacturing business in a listed company, and possesses a wealth of experience and keen, specialist insight as an individual with experience as a representative director. In addition to actively providing opinions on overall corporate management and opinions regarding the Company's overseas business operation at Board of Directors' meetings and the like, he also plays a role in the supervision and auditing of management. The Company has deemed that Mr. Udagawa's insight can continue to be utilized in corporate management at the Board of Directors' meetings and the like, and thereby requests that he be elected as an Outside Director serving as Audit and Supervisory Committee Member.         </p>	June 2004	Director of Tosoh Corporation	June 2008	Managing Director of Tosoh Corporation	June 2009	President of Tosoh Corporation	March 2016	Director and Corporate Advisor of Tosoh Corporation	June 2018	Honorary Advisor of Tosoh Corporation	June 2019	Retired from Honorary Advisor of Tosoh Corporation	June 2019	Outside Director (Audit and Supervisory Committee Member) of the Company (To present)	0 shares
June 2004	Director of Tosoh Corporation																
June 2008	Managing Director of Tosoh Corporation																
June 2009	President of Tosoh Corporation																
March 2016	Director and Corporate Advisor of Tosoh Corporation																
June 2018	Honorary Advisor of Tosoh Corporation																
June 2019	Retired from Honorary Advisor of Tosoh Corporation																
June 2019	Outside Director (Audit and Supervisory Committee Member) of the Company (To present)																

No.	Name (Date of birth)	Career summary, positions, responsibilities, and significant concurrent positions	Number of shares of the Company held
4	Osamu Terada (April 7, 1953)  [Reelected] [Outside] [Independent]	<p>June 2005 Executive Officer of SHIMIZU CORPORATION</p> <p>June 2010 Managing Officer of SHIMIZU CORPORATION</p> <p>April 2013 Senior Managing Officer of SHIMIZU CORPORATION</p> <p>June 2014 Executive Vice President and Representative Director of SHIMIZU CORPORATION</p> <p>June 2020 Senior Advisor of SHIMIZU CORPORATION</p> <p>June 2021 Retired from Senior Advisor of SHIMIZU CORPORATION</p> <p>June 2021 Outside Director (Audit and Supervisory Committee Member) of the Company (To present)</p>	0 shares
		<p>Reasons for nomination as candidate for Outside Director serving as Audit and Supervisory Committee Member</p> <p>Mr. Osamu Terada has contributed to the expansion of the construction business in Japan at a listed company (a major construction company). In addition, he possesses a wealth of experience and keen, specialist insight as an individual with experience as a representative director. In addition to actively providing opinions on overall corporate management and opinions on the overall construction industry at the Board of Directors' meetings and the like, he also plays a role in the supervision and auditing of management. The Company has deemed that Mr. Terada's insight can continue to be utilized in corporate management at the Board of Directors' meetings and the like, and thereby requests that he be elected as an Outside Director serving as Audit and Supervisory Committee Member.</p> <p>[Supplementary explanation to the independence]</p> <p>Mr. Osamu Terada served as Director of SHIMIZU CORPORATION until June 2020. However, the amount of transactions between the Company and SHIMIZU CORPORATION is less than 0.001% of the Company's consolidated net sales for fiscal 2022 and he fulfills the Company's Standards of Independence for Outside Directors. The Company therefore has deemed that there are no issues regarding his independence.</p>	

No.	Name (Date of birth)	Career summary, positions, responsibilities, and significant concurrent positions	Number of shares of the Company held
5	Shuji Sasaki (December 31, 1955)  [Reelected]	<p>March 1979      Joined the Company</p> <p>February 2012    General Manager of Okayama Branch</p> <p>June 2014        Director and General Manager of Okayama Branch</p> <p>July 2014        Director and General Manager of the Flooring Division and Marketing Department</p> <p>April 2015        Director in charge of the Marketing and General Manager of the Flooring Division</p> <p>April 2016        Director, Managing Executive Officer and General Manager of the Sales Division</p> <p>April 2019        Director</p> <p>June 2019        Director (Full-time Audit and Supervisory Committee Member) (To present)</p> <p>Reasons for nomination as candidate for Director serving as Audit and Supervisory Committee Member Mr. Shuji Sasaki has worked in a wide range of areas as General Manager of the Sales Division and the like. He is well versed in the domestic interior industry and the Company's circumstances, and has abundant practical knowledge and experience. In addition to gathering information on daily operations within the company and listening to regular business reports from the departments executing business at Audit and Supervisory Committee meetings, he also plays a role in the supervision and auditing of management. The Company has deemed that Mr. Sasaki's insight can continue to be utilized in company management and requests that he be elected as a Director serving as Audit and Supervisory Committee Member.</p>	32,514 shares

- (Notes) 1. There is no special interest between each candidate and the Company.
2. Mr. Masatoshi Hatori, Ms. Michiyo Hamada, Mr. Kenichi Udagawa, and Mr. Osamu Terada are candidates for Outside Directors.
3. Regarding the independence of candidates for Outside Directors  
The candidates for Outside Directors fulfill the Company's stipulated requirements (listed below) for independence of Outside Directors.
- (1) A person who does not fall under any of the following items at present
- 1) A shareholder holding 5% or more of the voting rights of the Company or executive thereof;
  - 2) An executive of a business partner whose transaction amount with the Company is equivalent to 2% or more of consolidated net sales of the Company or a subsidiary of such a business partner;
  - 3) An executive of a major lender to the Company (i.e., a lender with which the Group has an outstanding borrowings equivalent to 2% or more of the consolidated total assets of the Company at the end of the latest fiscal year);
  - 4) A certified public accountant who belongs to the Accounting Auditor of the Company;
  - 5) A consultant, an accounting specialist, or a legal specialist who receives money or other monetary benefits amounting to ¥10 million or more on an annual basis, separate from Director's remuneration from the Company (if the entity receiving such monetary benefits is an organization such as a corporation and association, a person who belongs to such an entity);
  - 6) An executive of an organization that has received a donation of ¥1 million or more on an annual basis from the Company; and
  - 7) A person who is a relative within the second degree of kinship of 1) through 6) above.
- (2) A person who does not fall under any of items 1) through 7) above at any time in the last three years
4. Mr. Masatoshi Hatori, Ms. Michiyo Hamada, Mr. Kenichi Udagawa, and Mr. Osamu Terada are currently serving as Outside Directors who are Audit and Supervisory Committee Members of the Company and their terms of office will be eight years for Mr. Masatoshi Hatori and Ms. Michiyo Hamada, four years for Mr. Kenichi Udagawa, and two years for Mr. Osamu Terada at the closing of this General Meeting of Shareholders.
5. The Company has filed the relevant notifications with the Tokyo Stock Exchange (TSE) and Nagoya Stock Exchange (NSE), per the stipulations of each Exchange, that Mr. Masatoshi Hatori, Ms. Michiyo Hamada, Mr. Kenichi Udagawa and Mr. Osamu Terada are Independent Officers. If the reelection of each candidate is approved, the Company plans for his/her appointment as an Independent Officer to continue.
6. Under the provisions of Article 427, paragraph 1 of the Companies Act, the Company has concluded contracts for limitation of liability with Mr. Masatoshi Hatori, Ms. Michiyo Hamada, Mr. Kenichi Udagawa, Mr. Osamu

Terada and Mr. Shuji Sasaki as provided for in Article 423, paragraph 1 of the Companies Act. The maximum amount of the liability for damage based on said contracts is the amount prescribed in laws and regulations and if the reelection of each candidate is approved, the Company plans to renew the respective agreements with each one of them.

7. The Company has concluded a directors and officers liability insurance contract with an insurance company as stipulated in Article 430-3, paragraph 1 of the Companies Act. The insurance policy covers damages that may arise when the insured persons assume liability for the execution of his or her duties or receive a claim related to the pursuit of such liability. If each candidate is elected and assumes the position of Director serving as Audit and Supervisory Committee Members, each candidate will be included as the insured under this insurance policy.

#### Proposal 4: Election of Accounting Auditor

The term of office of the current Accounting Auditor for the Company, PricewaterhouseCoopers Aarata LLC, will expire at the conclusion of this Ordinary General Meeting of Shareholders. Therefore, the Company proposes the election of Deloitte Touche Tohmatsu LLC, as a new Accounting Auditor based on the decision to propose its election by the Audit and Supervisory Committee.

The Audit and Supervisory Committee nominated Deloitte Touche Tohmatsu LLC as a candidate for the position of certified public accountant, etc., because the audit firm can be expected to conduct audits from a new perspective as the Company starts a new Medium-term Business Plan in FY 2023 to achieve the Company's Long-term Vision 【 DESIGN 2030 】, and the Audit and Supervisory Committee has determined that the audit firm has a system to ensure that the accounting audit for the Company will be conducted properly and appropriately as a result of comprehensive consideration of the independence, expertise, properness and appropriateness of auditing activities, the level of remuneration for the audit services, and other factors required in accordance with the "Guidelines for Selection of Accounting Auditor Candidates" established by the Audit and Supervisory Committee.

The candidate for Accounting Auditor is as follows:

Name	Deloitte Touche Tohmatsu LLC		
Office	Main office: Marunouchi Nijubashi Building, 3-2-3 Marunouchi, Chiyoda-ku, Tokyo Other offices: Nagoya office, Osaka office, Fukuoka office, etc.		
History	May 1968	Tohmatsu Awoki & Co. established	
	May 1975	Joined Touche Ross International ("TRI") alliance (current Deloitte Touche Tohmatsu Limited ("DTTL"))	
	February 1990	Changed the company name to Tohmatsu & Co.	
	July 2009	Converted to a limited liability company and changed company name in English to Deloitte Touche Tohmatsu LLC	
Overview (As of the end of February 2023)	Capital:	¥1,138 million	
	Personnel:	Partners (Certified Public Accountants):	486
		Specified partners:	59
		Professionals: Certified Public Accountants:	2,586
		Persons who have passed the CPA examination, etc. (including Accountant Assistants):	1,176
		Other professionals:	3,142
		Clerks:	85
		Total	7,534

**[Reference] Director Skills Matrix**

Aiming to grow into a Space Creation Company, as for the experience and insight expected from Directors and Audit and Supervisory Committee Members, we have formulated a skills matrix based on the basic skills of management, which are “Corporate management,” “Finance/Accounting,” “Human resources/Legal affairs,” and “Sales/Marketing,” as well as based on the expertise in line with the Company’s businesses and experience and insight necessary for growth, which are “Materials business,” “Manufacturing/Quality,” “Interior materials business,” “Construction business,” “Global/Overseas business,” and “ESG/Sustainability.”

For the composition of the Board of Directors, we have established our own criteria for independence, taking into consideration the diversity of experience, insight, and abilities, etc. mentioned above, as well as emphasizing a high level of expertise and experience to provide frank and constructive advice on the Company’s management.

The expertise and experience of the candidates for Director proposed in Proposal 2 and Proposal 4 are as follows:

Name				Audit and Supervisory Committee Member	Nomination and Remuneration Committee Member
	Current positions and responsibilities	Attribute	Tenure		
Shosuke Yasuda	Representative Director, President and CEO Nomination and Remuneration Committee Member	Executive	9 years		●
Yasumasa Kondo	Executive Officer in charge of administration and Cyber Security	Executive	–		
Masatoshi Hatori	Outside Director Audit and Supervisory Committee Member (Chairman) Nomination and Remuneration Committee Member	Outside Independent	8 years	◎ (Chairman)	●
Michiyo Hamada	Outside Director Audit and Supervisory Committee Member Nomination and Remuneration Committee Member (Chairman)	Outside Independent	8 years	●	◎ (Chairman)
Kenichi Udagawa	Outside Director Audit and Supervisory Committee Member Nomination and Remuneration Committee Member	Outside Independent	4 years	●	●
Osamu Terada	Outside Director Audit and Supervisory Committee Member Nomination and Remuneration Committee Member	Outside Independent	2 years	●	●
Shuji Sasaki	Director Full-Time Audit and Supervisory Committee Member	Non-Executive	4 years	●	



Name	Experience and insight expected from Directors										Attendance rate of Board of Directors' meetings
	Experience and insight for basis of management				Expertise in line with the Company's businesses and experience and insight necessary for growth						
	Corporate management	Finance/Accounting	Human resources/Legal affairs	Sales/Marketing	Materials business	Manufacturing/Quality	Interior materials business	Construction business	Global/Overseas business	ESG/Sustainability	
Shosuke Yasuda	•			•	•		•		•	•	(15/15) 100%
Yasumasa Kondo	•	•	•	•	•	•			•	•	—
Masatoshi Hatori	•		•	•	•	•	•				(15/15) 100%
Michiyo Hamada			•						•	•	(15/15) 100%
Kenichi Udagawa	•		•		•	•			•		(15/15) 100%
Osamu Terada	•			•				•	•	•	(15/15) 100%
Shuji Sasaki				•			•				(15/15) 100%

# Business Report

(April 1, 2022 to March 31, 2023)

## 1. Overview of the Sangetsu Group (the “Group”)

### (1) Business Progress and Results

During the fiscal year under review, the Japanese economy showed a gradual recovery trend as socioeconomic activities normalized toward life under the pandemic since the deregulation of measures against COVID-19. However, while the supply chain disruption due to heightened geopolitical risks and the resulting surge in prices of energy resources and raw materials continue, the future has become increasingly uncertain due to the collapse of some banks in the United States and European financial markets, among other factors. In the Japanese construction market, which is closely related to the Company’s businesses, while economic activity is recovering, the impact of high raw material prices and logistics costs is further expanding. Furthermore, while the economy as a whole is recovering from the downturn caused by COVID-19, the business environment is still in a difficult-to-predict situation, with sluggish growth in the number of new housing starts.

In these circumstances, the Group steadily implemented measures based on its Medium-term Business Plan 【 D.C. 2022 】, which is now in its final year of implementation. To strengthen our position in the value chain toward implementing the “Space Creation Company,” the Company additionally acquired the remaining 49% of the shares of wallpaper manufacturer CREANATE Inc., making it a wholly owned subsidiary, and also made Cross Kikaku, Ltd. (which became a stock company in April 2023), a leading delivery company in the Kyushu area, into a new subsidiary. In product development, the Group implemented product strategies tailored to each market and its needs, including the expansion of low environmental impact products that contribute to the realization of a sustainable society and low-priced strategic products amid rising construction material prices, as well as the development of products for overseas markets through collaboration among domestic and overseas group companies. Meanwhile, against the backdrop of surging raw material prices and rising logistics costs, the third round of transaction price revisions was implemented beginning with orders received on October 1, 2022, following the product transaction price revisions implemented in September 2021 and April 2022, to improve profitability in the interior decoration business.

As a result of these efforts, consolidated financial results for the fiscal year under review recorded ¥176,022 million in net sales, up 17.8% year on year, ¥20,280 million in operating income, up 154.8% year on year, and ¥20,690 million in ordinary income, up 152.2% year on year. Net income attributable to owners of the parent increased significantly to ¥14,005 million (¥276 million for the previous year), partly due to the impairment of intangible assets related to Koroseal Interior Products Holdings, Inc., a U.S. subsidiary of the Company in the previous year.

#### (Reference) Consolidated Financial Highlights

(Millions of yen; percentages indicate year-on-year changes)

Net sales	Operating income	Ordinary income	Net income attributable to owners of the parent
176,022	20,280	20,690	14,005
up 17.8%	up 154.8%	up 152.2%	¥276 million in the previous year

**(Interior segment) Net sales ¥141,949 million**

## Main business

Planning and sales of interior products such as wall coverings, flooring, and fabrics; interior finishing and design, construction business, etc.

(Millions of yen)

	70th term Fiscal year ended March 31, 2022	71st term Fiscal year ended March 31, 2023
Net sales	123,042	141,949
Operating income	9,097	20,504

In the wall coverings division, while the overall market weakened due to a decrease in the floor areas of new housing starts, mass-produced wallpaper for residential use “SP” remained strong, and “FAITH,” a wallpaper sample book for noncombustible certified wallpaper for non-residential facilities launched in November, was adopted not only in non-residential facilities but also in residential houses, and sales grew immediately after the launch. In addition, strong sales of “CLEAS,” a glass film sample book, and “REATEC,” an adhesive-attached decorative film sample book, were achieved through successful collaboration among sales divisions, and as a result, net sales of wall coverings were ¥73,503 million yen (up 17.9% year on year).

In the flooring materials division, sales of “Floor Tile,” a vinyl floor tile sample book that can be used in a wide range of applications in both the residential and non-residential sectors, remained strong against a backdrop of commercial and restaurant demand in urban areas and a firm housing renewal market. In addition, “NT700,” a carpet tile sample book containing products with low environmental impact, was adopted mainly in offices to meet market needs for environmentally friendly products, and sales of “DT” and “Carpet” also grew, driven by a recovery trend in hotel demand. Furthermore, in January, “S Floor,” a sample book of flooring materials for facilities, was launched, expanding the lineup of strategic products in the low price range. As a result, net sales of flooring materials were ¥52,154 million (up 16.2% year on year).

In the fabrics division, although the curtain market as a whole was shrinking and the environment was severe, a curtain sample book “STRINGS” drove sales in the residential market, and in February, a curtain sample book for residential customers “AC” was launched and sales promotion activities were conducted to penetrate the market. In the new sample book “AC,” suggested retail prices were revised to improve profitability as well. On the other hand, Sangetsu Vosne Corporation, which is responsible for B to C business, made efforts to conduct aggressive sales activities through its e-commerce business and sales business for builders. As a result, net sales of fabrics products, which are composed of curtains and upholstery, were ¥9,514 million (up 10.5% year on year).

In the Interior segment, both net sales and operating income increased due to the spread of transaction price revisions implemented from orders received on April 1 and October 1 in each of the wall coverings division, the flooring materials division, and the fabrics division. With other business, which includes installation fees, adhesives, etc., recording net sales of ¥6,776 million (down 6.0% year on year), the Interior segment recorded net sales of ¥141,949 million (up 15.4% year on year) and operating income of ¥20,504 million (up 125.4% year on year).

**(Exterior segment) Net sales ¥6,293 million**

## Main business

Sale and installation of exterior products including doors, fences, carports, terraces, etc.

(Millions of yen)

	70th term Fiscal year ended March 31, 2022	71st term Fiscal year ended March 31, 2023
Net sales	5,823	6,293
Operating income	541	450

For the Exterior segment, in the housing sector, although conditions were difficult due to sluggish growth in the number of new housing starts, sales grew due to successful sales promotion measures to celebrate the 50th anniversary of Group company Sungreen Co., Ltd. and sales activities focused on renovations. On the other hand, the non-housing sector performed well in the demand season at the end

of the fiscal year, with many large fences and perimeter fences completed, and progress was also seen in the space creation field. Also, the workforce has been expanded based on the growth strategy and the appointment of specialized personnel has been promoted. As a result, net sales of the exterior segment were ¥6,293 million (up 8.1% year on year), and operating income was ¥450 million (down 16.8% year on year).

**(Overseas segment) Net sales ¥21,670 million**

Main business

Manufacture of wallpaper products and sale of interior materials  
(Millions of yen)

	70th term Fiscal year ended March 31, 2022	71st term Fiscal year ended March 31, 2023
Net sales	15,930	21,670
Operating income	(1,821)	(1,065)

In the Overseas segment, the results of overseas subsidiaries and associates over the period from January to December 2022 are included in results for the fiscal year under review.

In the North American market, although the market environment showed a recovery trend due to the recovery of economic activities, there were some effects such as the weakening of the construction market due to the current rise in interest rates. In such an environment, self-manufactured wallpaper, for which design development is being strengthened, performed well, receiving favorable market evaluation. In addition, profitability improved in the wall protection division, from which some products were withdrawn, and deliveries to large overseas medical properties also contributed to sales. On the other hand, lower production efficiency due to reduced manufacturing volume for inventory adjustment and increased SG&A expenses due to an increase in performance-based bonuses were the main reasons for the decline in earnings.

In the Southeast Asian market, economic activity in each country was generally on a recovery track due to the removal of travel restrictions caused by COVID-19 and other factors. As a result, construction work, which had been stagnant, resumed, and sales in Thailand and Vietnam, which became 100% locally-incorporated companies in 2020, grew significantly, and sales were solid at all locations. Also, cooperation in each region was strengthened through the introduction of a new sales support and customer management system, as well as the enhancement of global spec sales across countries.

In the Chinese and Hong Kong markets, conditions remained difficult as the effects of strict lockdowns and tourist restrictions in various regions continued to cause property completions to be postponed. Under such circumstances, measures to look ahead after the resolution of COVID-19 were steadily implemented, such as reviewing the sales structure with profitability in mind and holding an online presentation of new products by Koroseal Interior Products Holdings, Inc., a Group company in North America.

As a result, net sales of the Overseas segment were ¥21,670 million (up 36.0% year on year), and operating loss was ¥1,065 million (operating loss of ¥1,821 million for the previous fiscal year).

**(Space creation segment) Net sales ¥7,746 million**

Main business

Design, Interior-finishing construction business, general interior installation, and installation management  
(Millions of yen)

	70th term Fiscal year ended March 31, 2022	71st term Fiscal year ended March 31, 2023
Net sales	6,579	7,746
Operating income	139	391

In the Space creation segment, Fairtone Co., Ltd., which is mainly responsible for the installation department, completed large-scale properties in the Tokyo metropolitan area and the Kansai area, which contributed to sales. Sales activities in collaboration with the Company made steady progress, and in addition to the main office projects, the performance at medical and welfare facilities and lodging and

hotel facilities expanded. In January 2023, a quality control department was newly established and measures were taken to strengthen the management function.

In the Space Creation Division of the Company, which is primarily responsible for the design department, sales remained strong on the back of demand for office renovations, especially in the Tokyo metropolitan area. In addition, the expansion of human resources through collaboration with the sales division of the Company was successful and led to the development of new clients.

As a result, net sales of the Space creation segment were ¥7,746 million (up 17.8% year on year), and operating income was ¥391 million (up 179.9% year on year).

(Reference)

For non-consolidated results, net sales were ¥140,052 million (up 15.8% year on year), operating income was ¥19,726 million (up 128.8% year on year), ordinary income was ¥20,690 million (up 128.3% year on year), and net income was ¥14,754 million (net loss of ¥1,436 million for the previous fiscal year). The increase in net sales, operating income, and ordinary income compared to the previous year's results was mainly due to the improvement of profitability in the interior business. In addition, net income increased significantly due to the absence of extraordinary losses recorded in the previous fiscal year, including loss on valuation of shares of Sangetsu USA, Inc., the Company's consolidated subsidiary and the parent company of Koroseal Interior Products Holdings, Inc., and provision of allowance for doubtful accounts for a loan to Koroseal Interior Products Holdings, Inc.

### **Efforts toward Sustainability**

To incorporate the ideas of sustainability into business operations and contribute to realizing a sustainable society through business activities, the Group proposes the realization of a society that is "Inclusive, Sustainable, and Enjoyable" in the Long-term Vision 【 DESIGN 2030 】 and takes various actions.

As efforts in business activities during the fiscal year under review, in the environmental aspect, product development for the realization of a sustainable society has been promoted and lineup of low-environmental-impact products has been expanded to all elements of walls, floors, and fabrics, including a wallpaper "MEGURReWALL," a carpet tile "NT700 Fiber Eco," and curtains "&ECO," all of which are made from recycled resources. In addition to efforts to increase the volume of recycled materials processed at the "sangetsu Sample Book Recycling Center," participation in employee-led environmental protection activities was also proactively implemented. In efforts to reduce GHG emissions, in addition to measures to reduce Scope 1 and Scope 2, we visited suppliers directly to confirm and provide advice on environmental initiatives and improvements with the aim of reducing Scope 3, which accounts for a large portion of the Group's GHG emissions.

On the other hand, as social participation activities, the Company continuously supports the interior renovation of children's nursing homes. The renovations were performed with measures to prevent COVID-19 infection, and resulted in the number of renovated homes reaching 55 in the fiscal year under review, and the total number from 2014 reaching 187. In diversity and inclusion efforts, we worked to increase the ratio of female managers and the employment rate of persons with disabilities, and improved the workplace environment so that diverse human resources can play an active role in a wide range of organizations. Moreover, the Group engaged in a wide range of activities, such as cooperating with NPOs that support children in developing countries, participating in industry-academia projects, and holding seminars to deepen understanding of LGBTQ issues.

In efforts to enhance the value of human resources, the Group introduced the job-based personnel system through a personnel system reform to emphasize fairness in duties and compensation, and established a framework for building an organization in which employees can envision a wider range of careers and take on new challenges. In addition, the Company's long-term efforts based on its health management policy, such as health guidance for employee health examinations and lifestyle improvement, were highly evaluated, and the Company was selected as a "Certified Health & Productivity Management Organization 2023." This is the fourth consecutive year of certification, following the previous year, and the fifth time in total.

The Company's proactive disclosure of information in these sustainability-related activities was evaluated, and in January 2023, the Company's sustainability website received the Silver Award for Excellence in the "Sustainability-site Awards 2023" conducted by Association for Sustainability Communication. The Group continues to intensify its effort to realize a sustainable society and seeks to be a company that can share the enjoyment of new value creation with all stakeholders.

## **(2) Capital Investments**

During the fiscal year under review, the Group as a whole made ¥3,242 million in capital investment, including investments to establish a new plant to ensure a sustainable and stable supply of wallpaper, additional investments related to core systems, etc. in the interior segment.

## **(3) Financing**

The capital investment was covered by the Group's own funds, and the Group did not procure financing by capital increase or bond issue in the fiscal year under review.

## **(4) Issues to Address**

With regard to the future outlook, supply chain disruptions due to heightened geopolitical risks and the continued surge in prices of energy resources and raw materials that are partly caused by these risks are expected to continue. At the same time, financial unpredictability and uncertainty are expanding, and when political confusion in advanced countries is added to this, there is concern that the real economy will be significantly affected as well.

For the Japanese construction markets, which are closely related to the Company's businesses, the residential market is expected to remain flat as the recovery trend from the COVID-19 pandemic appears to be pausing. In the non-housing market, while there are anticipated factors such as a recovery of hotels and lodging facilities due to the restart of economic activity and a growing market for office renovations in the Tokyo metropolitan area, the cost and procurement situation is expected to remain difficult due to the continuing sharp increases in raw material prices and logistics costs.

Under such circumstances, for the full-year consolidated business results forecast, the Group expects to record net sales of ¥183.0 billion (up 4.0% year on year), operating income of ¥15.0 billion (down 26.0% year on year), ordinary income of ¥15.4 billion (down 25.6% year on year), and net income attributable to owners of the parent of ¥10.5 billion (down 25.0% year on year). The assumptions on which these forecasts are based may change significantly depending on a variety of factors, and should the need arise to revise the business results forecasts, the Group will disclose any such revisions promptly.

Since the establishment of the new organization in 2014 as the third foundation, the Group has been working to develop and strengthen its business foundation and enhance and expand its functions and service capabilities to achieve sustainable growth. The results for the fiscal year ended March 31, 2023, far exceeded the quantitative targets set forth in the Medium-term Business Plan 【 D.C. 2022 】 , and were the best ever.

In order to continue to achieve enhances in corporate value that are both long-term and future-oriented in an uncertain and rapidly-changing environment, the Company has reviewed the Sangetsu Group Long-term Vision 【 DESIGN 2030 】 and announced new Medium-term Business Plan (2023-2025) 【 BX 2025 】 .

## Sangetsu Group’s Long-term Vision 【 DESIGN 2030 】

In the Long-term Vision 【 DESIGN 2030 】, the Group set the vision of “The Sangetsu Group will become a Space Creation Company” and has clearly stated the approach to transforming into a “Space Creation Company,” and will work on achieving this vision. There is no change in the basic concept and strategy that forms the basis of this vision. However, based on the progress made in terms of measures and earnings during the previous Medium-term Business Plan period, the Group has partially changed the wording of the approach to achieving the Long-term Vision, clarifying the vision of a Space Creation Company, and considering the business beyond that vision. At the same time, the Group has set new quantitative targets since the Group achieved the earnings target of the Long-term Vision 【 DESIGN 2030 】 in the fiscal year ended March 31, 2023.

### 1. Changes in “Approach to a Space Creation Company”

The wording of the “Approach to a Space Creation Company” announced in May 2020 has been changed as follows.

	Before change	After change
Management and Business Foundations	Diverse professional human resources	Diverse human capital
	Link and utilize business related data	Link and utilize digital capital
Main Function	Complete transformation to selling service	Provision of solutions
	Business with service as the source of value added	Business that organically integrates functions such as space design, products, logistics and distribution, and installation to provide as solutions

### “Approach to Achieving the Long-term Vision”

#### **Basis of Management**

- Design management  
Enhance brand value and transform business based on design

#### **Management and Business Foundations**

- Diverse human capital  
An organization where diverse professional human resources with onsite capabilities play active roles
- Link and utilize digital capital  
Use DATA to streamline and transform business

#### **Main Function**

- Provision of solutions  
Business that organically integrates functions such as space design, products, logistics and distribution, and installation to provide as solutions

#### **Business Area**

- Pacific Rim region  
Strong business in each country in the Pacific Rim region and global expansion

#### **Corporate Vision**

- From an interior decorating company to a space creation company  
A global space creation company based on design, human resources, DATA, and service

### “Social Value the Sangetsu Group Aims to Realize”

The Sangetsu Group aims to contribute to the realization of a society that is:

- Inclusive: an equal and healthy inclusive society  
Sustainable: a sustainable society that protects the global environment  
Enjoyable: a more affluent and enjoyable society

## 2. Clarify the vision of a Space Creation Company

The vision of a Space Creation Company as aimed in the Long-term Vision 【 DESIGN 2030 】 has been clarified as follows.

Four functions through design capability and creativity based on human capital and digital capital, that is:

- Attractive space design proposal function based on the most suitable concept for each market
- Space material provision function that proposes a wide range of products with advanced planning, development, and procurement capabilities
- Inventory, distribution, and logistics functions that enable immediate delivery over a wide area without running out of products
- Expansive and comprehensive, flexible installation capabilities through various businesses, personal relationships, and corporate partnerships

To be a company that provides high value in space creation on a global scale by solution capabilities organically integrating the above.

## 3. Beyond a Space Creation Company

In May 2020, the Group announced the Long-term Vision 【 DESIGN 2030 】 and the previous Medium-term Business Plan, and since then, the Group has confirmed the expansion of the revenue base and the stability of earnings by transforming the Group into a Space Creation Company, but we have also recognized the need to expand our business beyond being a Space Creation Company in order to achieve even greater growth. As a Space Creation Company, the Group designs, proposes, and provides spaces that bring joy and comfort to people, which requires the Group to consider and conceptualize how people spend their time in those spaces. In other words, the Group recognizes that space creation is about considering what kind of space to provide and how people will use the space, and this is connected to considering how the operation of the space will be conducted. In this sense, the Group believes that the space operation business has potential beyond the space creation business, and the Group will continue to study the possibility of expanding into the space operation business.

## 4. Quantitative target

The new quantitative targets are as follows.

FY2029

Consolidated net sales	¥250.0 billion
Consolidated operating income	¥27.0 billion

(Reference) Announced in May 2020

FY2029

Consolidated net sales	¥225.0 billion
Consolidated operating income	¥18.5 billion



## Medium-term Business Plan (2023-2025) 【 BX 2025 】 \* BX = Business Transformation

### 1. Basic Policy

Strengthen and expand solution capabilities to enhance the value of space creation, transform into a Space Creation Company with strong profitability and growth potential, expand products, and expand overseas and exterior businesses, in addition to business expansion in major products and markets.

In addition, the Group will also consider the possibility of a space operation business in order to develop a business that will allow for further long-term growth.

### 2. Measures

#### 1) Expansion, advancement and support for activities of human capital

- Assignment of human resources staff by organization
- Significant increase in career hiring with diversity and expansion of hiring of new graduates
- Expansion of education and training to strengthen expertise and business building capabilities
- Improvement of compensation and working environment
- Improvement of the ratio of non-regular employees and promotion of diversity

#### 2) Accumulation, analysis and utilization of digital capital

- Renovation of core systems for business model transformation
- Promotion of the use of information and data for value chain transformation, including space design proposals
- Improvement of efficiency and certainty of sales and logistics through the use of commercial and logistics data in collaboration with agents
- Improvement of business operations and promotion of digitalization of on-site operations

#### 3) Enhancement of solution providing capabilities

- Strengthening of the ability to offer specialized space design and space proposals for each market
- Expansion, enhancement, and strengthening of branding of handling products
- Establishment and strengthening of product procurement system
- Geographic / functional expansion and strengthening of the logistics system
- Establishment of a large-scale and flexible interior installation capability and installation management system

#### 4) Exterior Business and Overseas Business

- Geographic and scale expansion, and enhancement of the exterior business
- Strengthening of product and space design capabilities, establishment of a quick-delivery supply system, strengthening of installation support capabilities, and establishment of a sales system that is attentive to market needs in order to shift to space creation business in overseas business

#### 5) Enhancement of social value

- Reduction of non-consolidated and consolidated GHG (Scope 1 & 2) emissions
- Identification of GHG (Scope 3) emissions and clarification of reduction measures
- Strengthening of development of low-environmental-impact products
- Promotion of recycling, including expansion of sample book recycling centers
- Promotion of diversity, equity and inclusion
- Promotion of activities to improve the living environment of children's homes
- Continuous support for children in need, developing countries, and refugees

### 3. Capital policy

#### 1) Shareholder return policy

- Maintain the equity to the range of ¥95.0 billion to ¥105.0 billion as of the end of March, 2026
- Dividends are the main source of shareholder returns, with a minimum annual dividend of 130 yen per share, with the aim of steadily increasing dividends.
- Share buybacks are also considered depending on market conditions.

2) Fund allocation plan

Fund generation during the Medium-term Business Plan		Fund allocation	
Cash equivalents at the beginning of the Plan	¥27.0 billion	Investment for growth	¥20.0 to ¥25.0 billion
Operating cash flow	¥47.0 to ¥51.0 billion	Return to shareholders	¥25.0 to ¥35.0 billion
Increase (decrease) of borrowings	¥(8.0) to ¥6.0 billion	Cash equivalents at the ending of the Plan	¥20.0 to ¥25.0 billion

4. Quantitative target

1) Economic value

Consolidated net sales	¥195.0 billion
Consolidated operating income	¥20.5 billion
Consolidated net income	¥14.5 billion
ROE	14.0%
ROIC	14.0%
CCC	65 days

2) Social value

(i) Global environment

GHG emissions	Non-consolidated	60% reduction from FY2018
GHG emissions	Consolidated	28% reduction from FY2021
Energy consumption	Non-consolidated	6% reduction from FY2018
Recycling rate (effective utilization rate)	Non-consolidated	At least 90%

(ii) Human capital

Non-smoking rate	Non-consolidated	At least 85%
Rewarding Index (“Job satisfaction affirmation rate” in the employee awareness survey)	Non-consolidated	At least 77%
Ratio of female managers	Non-consolidated	At least 25%
Ratio of employees with disabilities	Non-consolidated	At least 4%
Number of career recruits	Non-consolidated	Total of 60 to 80 persons in three years
Human capital investment	Non-consolidated	Total of ¥700 million in three years
Ratio of male taking maternity leave	Non-consolidated	More than 2 weeks 100%.

(iii) Social capital

Space creation in children’s home renovations	Consolidated	50 per year
Matching gift	Consolidated	18,000 S-mile
Social contribution activity expenses, including donations to outside organizations	Consolidated	Targeting 0.3 to 0.5% of annual ordinary income, donations are to be made to specific organizations on an ongoing basis.

#### Other Issues to Address

- 1) Koroseal Interior Products Holdings, Inc. has been unable to break out of operating loss despite implementing measures such as the introduction of new wallpaper manufacturing facilities, partial withdrawal from the wall surface protection materials business, and expansion of sales of the Company's products since the acquisition in November 2016. The biggest problem is that the business is still limited to a low value-added model of selling wallpaper manufactured by the Company and wallpaper from other companies, and therefore, it will continue to implement measures to strengthen its functions such as products and brands that can be differentiated, ability to supply products with short delivery times, ability to make proposals, and ability to install products.
- 2) In the Chinese and Hong Kong markets and the Southeast Asian market, the Group's business in the past has mainly focused on sales of European and U.S. products to the hotel-related construction market, but the business has been greatly affected by the declining competitiveness of European and U.S. products in the Asian market and the slump in hotel-related construction due to the impact of COVID-19, etc. In order to secure stable earnings in the Asian market and achieve business growth, CREANATE Inc., a Group company, is working to develop competitive products for the Asian market and to promote an inventory and sales policy to expand transactions for the residential market.
- 3) The Japanese market also continuously experiences rise in raw material prices and purchase prices and increases in logistics consignment fees, packaging material, labor, and other costs. In response to these cost increases, measures will be implemented to maintain and expand sales volumes while maintaining profitability.
- 4) In the Japanese market, as for the quality issue arising from wall coverings purchased from a particular supplier, we will establish a customer service office and perform necessary repairs in coordination with said supplier on an ongoing basis at the residences, facilities, etc., of the customers at which said products were installed. The cost of such repairs is fully borne by the supplier and no loss is recorded by the Company in relation to these repairs.

**(5) Changes in Assets and Income (Loss)**

(Millions of yen, except for per share amounts)

Item	68th term Fiscal year ended March 31, 2020	69th term Fiscal year ended March 31, 2021	70th term Fiscal year ended March 31, 2022	71st term Fiscal year ended March 31, 2023
Net sales	161,265	145,316	149,481	176,022
Ordinary income (loss)	9,844	7,042	8,203	20,690
Net income (loss) attributable to owners of the parent	1,432	4,780	276	14,005
Net income (loss) per share (Yen)	23.56	78.97	4.66	238.71
Diluted net income (loss) per share (Yen)	23.52	78.92	4.65	238.55
Total assets	164,101	158,665	147,943	164,454
Net assets	94,217	93,749	88,326	95,825
Net assets per share (Yen)	1,539.56	1,547.92	1,497.21	1,631.57

- Notes: 1. Net income (loss) per share is calculated using the average number of shares issued during the fiscal year (excluding treasury shares). Net assets per share is calculated using the number of shares issued as of the end of the fiscal year (excluding treasury shares).
2. The figures for the 69th term reflect material changes in the initial allocation of acquisition costs because the tentative accounting treatment of business combinations was finalized.
3. The accounting standards including the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) have been applied since the start of the 70th term, and therefore the figures for the 70th term and thereafter represent the figures after the application of the said accounting standard, etc.

**(6) Principal Subsidiaries and Affiliates (As of March 31, 2023)**

Company name	Capital	Equity ownership (%)	Main business
Sungreen Co., Ltd.	¥130 million	100	Sale of exterior products
Fairtone Co., Ltd.	¥35 million	100	Interior finishing and design and construction business
Sangetsu Vosne Corporation	¥100 million	100	Sale and planning of interior fabric products
Sangetsu Okinawa Corporation	¥100 million	100	Sale of interior materials
CREANATE Inc.	¥100 million	100	Manufacturing and sale of wallpaper and sale of products related to daily necessities
Cross Kikaku, Ltd.	¥7 million	100	Delivery and management of interior-related merchandise
Koroseal Interior Products Holdings, Inc.	US\$137,736 thousand	100	Manufacturing and sale of wallpaper products
Goodrich Global Holdings Pte., Ltd.	SG\$10,474 thousand	100	Sale of interior materials
Goodrich Global Limited	HK\$1,000 thousand	100	Sale of interior materials

- Notes: 1. On May 27, 2022, the Company acquired an additional 49% of the shares of CREANATE Inc. and made it a wholly owned subsidiary.
2. On September 30, 2022, the Company acquired all shares of Cross Kikaku, Ltd. and made it a subsidiary.
3. As for Cross Kikaku, Ltd., it was converted to a stock company in April 2023.

## (7) Principal Business Offices (As of March 31, 2023)

### 1) The Company

Headquarters	1-4-1 Habashita, Nishi-ku, Nagoya, Japan
Branches	Hokkaido Branch (Sapporo-shi), Tohoku Branch (Sendai-shi), Kita-Kanto Branch (Saitama-shi), Tokyo Branch (Shinagawa-ku), Chubu Branch (Nagoya-shi), Kansai Branch (Osaka-shi), Chugoku-Shikoku Branch (Hiroshima-shi), Kyushu Branch (Fukuoka-shi)
Branch offices/ Sales offices	Yokohama Branch Office, Hokuriku Branch Office (Kanazawa-shi), Shikoku Sales Office (Takamatsu-shi), Kita-Tohoku Sales Office (Morioka-shi), Fukushima Sales Office (Koriyama-shi), Higashi-Kanto Sales Office (Chiba-shi), Tama Sales Office (Tachikawa-shi), Atsugi Sales Office, Gunma Sales Office (Maebashi-shi), Tochigi Sales Office (Utsunomiya-shi), Niigata Sales Office, Ibaraki Sales Office (Mito-shi), Nagano Sales Office, Gifu Sales Office, Okazaki Sales Office, Shizuoka Sales Office, Kyoto Sales Office, Kobe Sales Office, Higashi-Osaka Sales Office, Minami-Osaka Sales Office (Sakai-shi), Okayama Sales Office (Hayashima-cho), Kita-Kyushu Sales Office, Kumamoto Sales Office, Minami-Kyushu Sales Office (Kagoshima-shi)

- Please see here for more details about business sites. (<https://www.sangetsu.co.jp/company/companyprofile/office.html/>)
- Please see here for nationwide showrooms. (<https://www.sangetsu.co.jp/english/showroom/>)

### 2) Principal subsidiaries

Company name	Headquarters	Offices
Sungreen Co., Ltd.	Nagoya-shi, Aichi	Headquarters, Nagoya Branch Office and 14 other branch offices
Fairtone Co., Ltd.	Chuo-ku, Tokyo	Headquarters, Chubu Sales Office (Nagoya-shi) and 3 other sales offices
Sangetsu Vosne Corporation	Shinagawa-ku, Tokyo	Headquarters, Nagoya Sales Office and 3 other sales offices
Sangetsu Okinawa Corporation	Ginowan-shi, Okinawa	Headquarters
CREANATE Inc.	Shinagawa-ku, Tokyo	Headquarters, Narita Plant, Ichinoseki Plant
Cross Kikaku, Ltd.	Kasuya-gun, Fukuoka	Headquarters, Nanotsu Sales Office (Fukuoka-shi)
Koroseal Interior Products Holdings, Inc.	U.S. (Ohio)	Headquarters, Louisville Plant (Kentucky)
Goodrich Global Holdings Pte., Ltd.	Singapore	Headquarters
Goodrich Global Limited	Hong Kong	Headquarters

Notes: 1. On September 30, 2022, the Company acquired all shares of Cross Kikaku, Ltd. and made it a subsidiary.

2. As for Cross Kikaku, Ltd., it was converted to a stock company in April 2023.

**(8) Employees (As of March 31, 2023)**

## 1) The Group

Segment	Number of employees	Change from previous fiscal year-end
Interior	1,540	Increase of 104
[of which Sangetsu Corporation]	[1,184]	[Increase of 2]
[of which Sangetsu Vosne Corporation]	[41]	[Increase of 7]
[of which Sangetsu Okinawa Corporation]	[19]	[0]
[of which CREANATE Inc.]	[212]	[Increase of 11]
[of which Cross Kikaku, Ltd.]	[84]	[Increase of 84]
Exterior	191	Increase of 18
Overseas	706	Decrease of 39
[of which Koroseal Interior Products Holdings, Inc.]	[431]	[Decrease of 50]
[of which Goodrich Global Holdings Pte., Ltd.]	[196]	[Increase of 9]
[of which Goodrich Global Limited]	[79]	[Increase of 2]
Space creation	110	Increase of 11
[of which Sangetsu Corporation]	[13]	[Increase of 1]
[of which Fairtone Co., Ltd.]	[97]	[Increase of 10]
Total	2,547	Increase of 94

Notes: 1. On September 30, 2022, the Company acquired all shares of Cross Kikaku, Ltd. and made it a subsidiary.

2. As for Cross Kikaku, Ltd., it was converted to a stock company in April 2023.

## 2) The Company

Number of employees	Change from previous fiscal year-end	Average age	Average years of service
1,197	Increase of 3	37.5 years old	16.1 years

**(9) Status of Principal Borrowings (As of March 31, 2023)**

Lender	Balance of borrowing (Millions of yen)
MUFG Bank, Ltd.	7,000
The Norinchukin Bank	801
Sumitomo Mitsui Banking Corporation	801

## 2. Status of the Company

### (1) Status of Shares (As of March 31, 2023)

- 1) **Total Number of Authorized Shares** 290,000,000 shares
- 2) **Total Number of Issued Shares** 59,200,000 shares
- 3) **Number of Shareholders** 6,988 persons  
(of which 5,216 are shareholders holding at least one unit of shares)

### 4) Major Shareholders (Top 10)

Shareholder name	Number of shares held (shares)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	8,067,400	13.74
Custody Bank of Japan, Ltd. (Trust Account)	2,352,700	4.00
The Ogaki Kyoritsu Bank, Ltd.	2,064,372	3.51
Tomohiro Yoshida	1,764,800	3.00
Touzou Hibi	1,743,492	2.97
Yoshio Hibi	1,708,588	2.91
Masae Miwa	1,699,228	2.89
MUFG Bank, Ltd.	1,666,200	2.83
Sangetsu Kyoei-kai	1,630,280	2.77
Sumitomo Realty & Development Co., Ltd.	1,170,000	1.99

Note: The Company holds 519,348 treasury shares, and shareholding ratio is calculated after deducting the amount of treasury shares.

### 5) Status of Shares Granted to the Company's Officers in Consideration of the Performance of Duties during the Current Fiscal Year

	Number of shares (shares)	Number of eligible beneficiaries
Directors (excluding Outside Directors and Audit and Supervisory Committee Members)	12,500	2

Note: Details of the Company's share remuneration are described in "2. Status of the Company, (2) Company Officers, 3) Remuneration System and Remuneration Plan for the Company's Directors and Executive Officers" of the Business Report.

## (2) Status of Share Acquisition Right

### 1) Status of the share acquisition rights as of the end of the current fiscal year

Name (Date of resolution for issue)	Number of share acquisition rights	Class and number of shares to be issued upon exercise of the share acquisition rights	Amount to be paid for share acquisition rights per unit	Amount of property contributed upon exercise of the share acquisition rights	Exercise period
2nd series share acquisition right (June 18, 2015)	173 units	Common shares 17,300 shares	¥177,900 (Note 1)	¥1 per share	From July 13, 2015 to July 12, 2045
3rd series share acquisition right (June 23, 2016)	217 units	Common shares 21,700 shares	¥180,200 (Note 1)	¥1 per share	From July 11, 2016 to July 10, 2046

Notes: 1. Monetary remuneration in the amount equivalent to the total amount payable for the share acquisition rights shall be paid to the officers to whom the share acquisition rights are allotted, and this monetary remuneration shall be offset against the total amount payable for the allocated share acquisition rights.  
2. The 1st series share acquisition right was nullified on June 16, 2022, upon expiration of the exercise period.

### 2) Status of the share acquisition rights held by Directors (excluding Audit and Supervisory Committee Members) of the Company as of the end of the current fiscal year

Name (Date of resolution for issue)	Number of share acquisition rights	Class and number of shares to be issued upon exercise of the share acquisition rights	Number of Directors holding the share acquisition rights
2nd series share acquisition right (June 18, 2015)	117 units	Common shares 11,700 shares	1 person
3rd series share acquisition right (June 23, 2016)	104 units	Common shares 10,400 shares	1 person

Note: The 1st series share acquisition right was nullified on June 16, 2022, upon expiration of the exercise period.



### (3) Company Officers

#### 1) Directors (As of March 31, 2023)

Position	Name	Areas of responsibility within the Company and significant concurrent positions
Representative Director, President and CEO	Shosuke Yasuda	
Director, Executive Officer	Tatsuo Sukekawa	In charge of administration (General Affairs, Human Resources, Management Audit and Information System) and Cyber Security, and General Manager of the Finance and Accounting Department
Director (Audit and Supervisory Committee Member)	Masatoshi Hatori	
Director (Audit and Supervisory Committee Member)	Michiyo Hamada	Outside Board Member of AISIN CORPORATION Outside Director of Toho Gas Co., Ltd.
Director (Audit and Supervisory Committee Member)	Kenichi Udagawa	
Director (Audit and Supervisory Committee Member)	Osamu Terada	
Director (Full-time Audit and Supervisory Committee Member)	Shuji Sasaki	

- Notes:
1. Directors serving as Audit and Supervisory Committee Members Mr. Masatoshi Hatori, Ms. Michiyo Hamada, Mr. Kenichi Udagawa, and Mr. Osamu Terada are Outside Directors.
  2. Outside Directors have been elected from among experts in diverse areas, such as business, legal, and accounting to ensure diversity in the Board of Directors as a whole.
  3. The Company has designated Audit and Supervisory Committee Members Mr. Masatoshi Hatori, Ms. Michiyo Hamada, Mr. Kenichi Udagawa, and Mr. Osamu Terada as Independent Officers stipulated by Tokyo Stock Exchange (TSE) and Nagoya Stock Exchange (NSE), and filed the relevant notification with the TSE and NSE.
  4. The Company elected Mr. Shuji Sasaki as a full-time Audit and Supervisory Committee Member from among five Audit and Supervisory Committee Members. The reason for election of the full-time Audit and Supervisory Committee Member is to enhance the effectiveness of the deliberation and activities at the Audit and Supervisory Committee, by means of collecting information on a daily basis, receiving regular operational reports from executive departments and share information from persons who conduct site visits as their duties among all Audit and Supervisory Committee Members.
  5. The Company has concluded an agreement with each of five Audit and Supervisory Committee Members as per Article 427, paragraph 1 of the Companies Act of Japan, limiting their liability for compensation for damage under Article 423, paragraph 1 of the Companies Act of Japan. These agreements limit the amount of their liability for compensation for damage to the minimum legally stipulated amounts.
  6. The Company has concluded a directors and officers liability insurance policy with an insurance company, as stipulated in Article 430-3, paragraph 1 of the Companies Act of Japan. The insured persons of this insurance policy include Directors and Executive Officers of the Company and Officers of the subsidiaries, and the Company bears all insurance premiums. This insurance policy covers compensation for damages to be borne by the insured persons in the event of claims made during the term of the policy against them regarding the execution of their duties. However, measures are taken so that the properness of the performance of duties by officers, etc., is not impaired by excluding damage caused as a result of any conduct committed while knowing that the conduct is in violation of laws and regulations from the scope of compensation.
  7. Effective April 1, 2023, Mr. Tatsuo Sukekawa was appointed the General Manager of the Finance and Accounting Department.

## 2) Amount of Remuneration, etc. to Directors in FY 2022

Title	Amount of remuneration, etc. (Millions of yen)	Amount of remuneration by type (Millions of yen)			Number of eligible officers (Persons)
		Base remuneration	Performance-based remuneration, etc.	Non-monetary remuneration, etc.	
Directors (excluding Audit and Supervisory Committee Members)	154	44	91	18	2
Directors (Audit and Supervisory Committee Members)	63	63	–	–	5
[Of which, Outside Directors]	[43]	[43]	[–]	[–]	[4]
Total	218	107	91	18	7
[Of which, Outside Directors]	[43]	[43]	[–]	[–]	[4]

- Notes: 1. Above amount of remuneration does not include amount equivalent to salaries of those who are also company employees.  
2. Non-monetary remuneration, etc. is restricted share remuneration and the amount recorded as an expense in the fiscal year under review is shown.  
3. The system of counselors/advisors was terminated. However, Mr. Touzou Hibi, a member of the founding family, serves as a part-time, unpaid special advisor.

## 3) Remuneration System and Remuneration Plan for the Company's Directors and Executive Officers

### i) Remuneration system

As shown in Table 1, remuneration for Directors (excluding Directors serving as Audit and Supervisory Committee Members) who hold concurrent positions as Executive Officers and Executive Officers consists of three main elements: (1) base remuneration (an amount determined based on a coefficient between 0.85 and 1.25 that is determined following an evaluation of each individual's contribution to the Company's businesses in each fiscal year by the Nomination and Remuneration Committee), (2) performance-based remuneration (linked to the level of achievement of return on equity (ROE) in each fiscal year), and (3) restricted share remuneration (a long-term incentive).

Remuneration for Directors (excluding Directors serving as Audit and Supervisory Committee Members) who do not hold concurrent positions as Executive Officers and Directors serving as Audit and Supervisory Committee Members consists only of base remuneration.

(Table 1)

	Director (excluding Director serving as Audit and Supervisory Committee Member) who holds concurrent position as Executive Officer and Executive Officer	Director (excluding Director serving as Audit and Supervisory Committee Member) who does not hold concurrent position as Executive Officer	Director serving as Audit and Supervisory Committee Member
Base remuneration	✓	✓	✓
Performance-based remuneration	✓	–	–
Restricted share remuneration	✓	–	–

ii) Remuneration plan

The details of each type of remuneration, etc. are as shown in Table 2.

(Table 2)

<p>Base remuneration</p>	<p>For base remuneration for Directors (excluding Directors serving as Audit and Supervisory Committee Members) who hold concurrent positions as Executive Officers and Executive Officers, the Nomination and Remuneration Committee evaluates the results of each individual and their contribution to the Company's businesses in the relevant fiscal year and determines a coefficient between 0.85 and 1.25 based on that evaluation. Base remuneration is then calculated by multiplying that evaluation coefficient and a multiplier for each position by the standard base remuneration, with a calculation method as follows.</p> <p>(Formula)</p> <p><u>Base remuneration = Standard base remuneration × contribution evaluation coefficient × multiplier per position</u></p> <ul style="list-style-type: none"> <li>• Standard base remuneration = ¥15 million / year</li> <li>• Contribution evaluation coefficient = Determined within a range of 0.85 to 1.25 depending on the evaluation of the level of contribution in the relevant fiscal year</li> <li>• Multiplier per position for each Executive Officer (base remuneration) (see Graph 1 on page 39)</li> <li>• Amounts to be paid to Directors (excluding Directors serving as Audit and Supervisory Committee Members) who do not hold concurrent positions as Executive Officers and Directors serving as Audit and Supervisory Committee Members are determined individually, in accordance with responsibilities, etc.</li> <li>• Fixed remuneration is paid each month during their terms of office.</li> </ul>
<p>Performance-based remuneration</p>	<p>Performance-based bonuses for Directors (excluding Directors serving as Audit and Supervisory Committee Members) who hold concurrent positions as Executive Officers and Executive Officers are linked to consolidated net income in the relevant fiscal year, and their objective is to enhance capital efficiency on a single fiscal year basis. The calculation method for the amount of performance-based remuneration is as follows.</p> <p>(Formula)</p> <p><u>Performance-based remuneration = Standard amount per Executive Officer × multiplier per position</u></p> <ul style="list-style-type: none"> <li>• Standard amount per Executive Officer (see Table 3 on page 36)</li> <li>• Multiplier per position for each Executive Officer (performance-based remuneration) (see Graph 1 on page 39)</li> <li>• Performance-based remuneration is paid once per year on the day after the General Meeting of Shareholders after the end of each fiscal year.</li> <li>• Performance-based remuneration is not paid if consolidated net income is below a certain level.</li> </ul>
<p>Restricted share remuneration</p>	<p>For restricted share remuneration for Directors (excluding Directors serving as Audit and Supervisory Committee Members) who hold concurrent positions as Executive Officers and Executive Officers, a number of shares applicable to the period of the current Medium-term Business Plan is determined and paid, with the objective of promoting shared values with shareholders and clarifying incentives to sustainably enhance corporate value. Restricted shares for each position (the number of shares) are determined by multiplying the standard number of shares for Executive Officers by a multiplier per position, and the calculation method thereof is as follows.</p> <p>(Formula)</p> <p><u>Restricted share remuneration (number of shares) = Standard number of shares for Executive Officers × multiplier per position</u></p> <ul style="list-style-type: none"> <li>• Standard number of shares for Executive Officers = 2,500 shares</li> <li>• Multiplier per position for each Executive Officer (restricted share remuneration) (see Graph 1 on page 39)</li> <li>• The transfer restriction period will last for 30 years from the day of allotment, and transfer restrictions will be removed subject to the recipient retiring from the position of both Director and Executive Officer owing to the expiration of his or her term of office or other legitimate reason, etc.</li> <li>• The number of shares to be granted is determined in accordance with position, and the shares are granted while the individual is in office.</li> </ul>

#### 4) Performance-based Remuneration, etc.

##### i) Details of performance indicator

Consolidated net income is used as the indicator.

##### ii) Reasons for selecting the performance indicator

A target for return on equity (ROE) has been set as a key indicator of the efficiency of the Company's businesses, and therefore the consolidated net income that is required to achieve that target is used as an indicator.

##### iii) Performance-based remuneration calculation method

As one of the quantitative targets in the Medium-term Business Plan 【 D.C. 2022 】 , the Company has set an ROE target of 9.0%. The Company has set the amount of consolidated net income required to achieve this ROE target based on shareholders' equity of ¥95.0 billion during the period of the Medium-term Business Plan (2020-2022), and calculates a base value in accordance with the level of achievement of consolidated net income versus the target in each fiscal year, using the formula in Table 3. This base value is then multiplied by a multiplier per position determined in accordance with the individual's position during the relevant fiscal year, and the resulting amount is paid as performance-based remuneration.

(Table 3)

Consolidated net income (ROE)*	Amount of performance-linked remuneration for Executive Officers (X = Consolidated net income)
¥2.85 billion or less (ROE: 3.0% or less)	¥0
Over ¥2.85 billion and not over ¥4.75 billion (ROE: over 3.0% and not over 5.0%)	$(X - ¥2.85 \text{ billion}) \times 0.15\%$
Over ¥4.75 billion and not over ¥7.6 billion (ROE: over 5.0% and not over 8.0%)	$(¥4.75 \text{ billion} - ¥2.85 \text{ billion}) \times 0.15\%$ $+ (X - ¥4.75 \text{ billion}) \times 0.20\%$
Over ¥7.6 billion (ROE: over 8.0%)	$(¥4.75 \text{ billion} - ¥2.85 \text{ billion}) \times 0.15\%$ $+ (¥7.6 \text{ billion} - ¥4.75 \text{ billion}) \times 0.20\%$ $+ (X - ¥7.6 \text{ billion}) \times 0.22\%$

(Note)\*ROE for each level of consolidated net income calculated based on shareholders' equity = ¥95.0 billion.

##### iv) Results related to performance indicator

As shown in Table 4, consolidated net income in the fiscal year under review, which is used as a performance indicator, amounted to ¥14.00 billion.

(Table 4)

	Consolidated net income		Ratio of performance-based remuneration to total remuneration
	Forecasts	Results	
70th term (fiscal year ended March 31, 2022)	¥4.5 billion	¥0.27 billion	0%
71st term (fiscal year ended March 31, 2023)	(Note 1) ¥7.0 billion	¥14.00 billion	(Note 2) 52-55%
	¥13.5 billion		

Notes: 1. This amount was publicly announced on May 13, 2022. Furthermore, the amount was revised upward to ¥13.5 billion on February 10, 2023.

2. This ratio is calculated based on the latest share price (closing price as of May 1, 2023).

#### 5) Summary of Non-monetary Remuneration, etc.

The Company grants restricted shares to Directors (excluding Directors serving as Audit and Supervisory Committee Members) who hold concurrent positions as Executive Officers and Executive Officers as non-monetary remuneration. Conditions at the time of allotment, etc. are as described in "3) Remuneration System and Remuneration Plan for the Company's Directors and Executive Officers." In addition, the status of delivery in the fiscal year under review is provided in "2. (1) 5) Status of Shares Granted to the Company's Officers in Consideration of the Performance of Duties during the Current Fiscal Year."

#### 6) Resolutions related to Remuneration, etc. for Directors at the General Meetings of Shareholders

Approval was granted as follows at the 63rd Ordinary General Meeting of Shareholders and the 65th Ordinary General Meeting of Shareholders.

Payment recipient	Directors (excluding Audit and Supervisory Committee Members)		Directors (Audit and Supervisory Committee Members)
Remuneration content	Base remuneration and performance-based remuneration	Restricted share remuneration	Base remuneration
Resolution at General Meeting of Shareholders	63rd Ordinary General Meeting of Shareholders held on June 18, 2015	65th Ordinary General Meeting of Shareholders held on June 23, 2017	63rd Ordinary General Meeting of Shareholders held on June 18, 2015
Summary of the resolution	<ul style="list-style-type: none"> <li>• Contents of the remuneration plan</li> <li>• Maximum amount: within ¥400 million (annually)</li> </ul>	<ul style="list-style-type: none"> <li>• Contents of the remuneration plan</li> <li>• Within ¥120 million (annually; separate to the ¥400 million on the left) and within 60,000 shares of the common stock of the Company for the total number of shares to be issued or disposed of (annually)</li> </ul>	<ul style="list-style-type: none"> <li>• Contents of the remuneration plan</li> <li>• Within ¥80 million (annually)</li> </ul>
Number of eligible Directors (as of the resolution)	6	5	5

**7) Policies for Determining the Content of Individual Remuneration, etc. for Directors**

i) Method of determining policies for determining the content of individual remuneration, etc. for Directors

The Company passed a resolution concerning policies for determining the content of individual remuneration, etc. for Directors (excluding Directors serving as Audit and Supervisory Committee Members) at a meeting of the Board of Directors. Before making this resolution, the Board of Directors consulted the Nomination and Remuneration Committee about the content of the resolution and received its response.

ii) Summary of content of policies for making decisions

(a) Basic policy

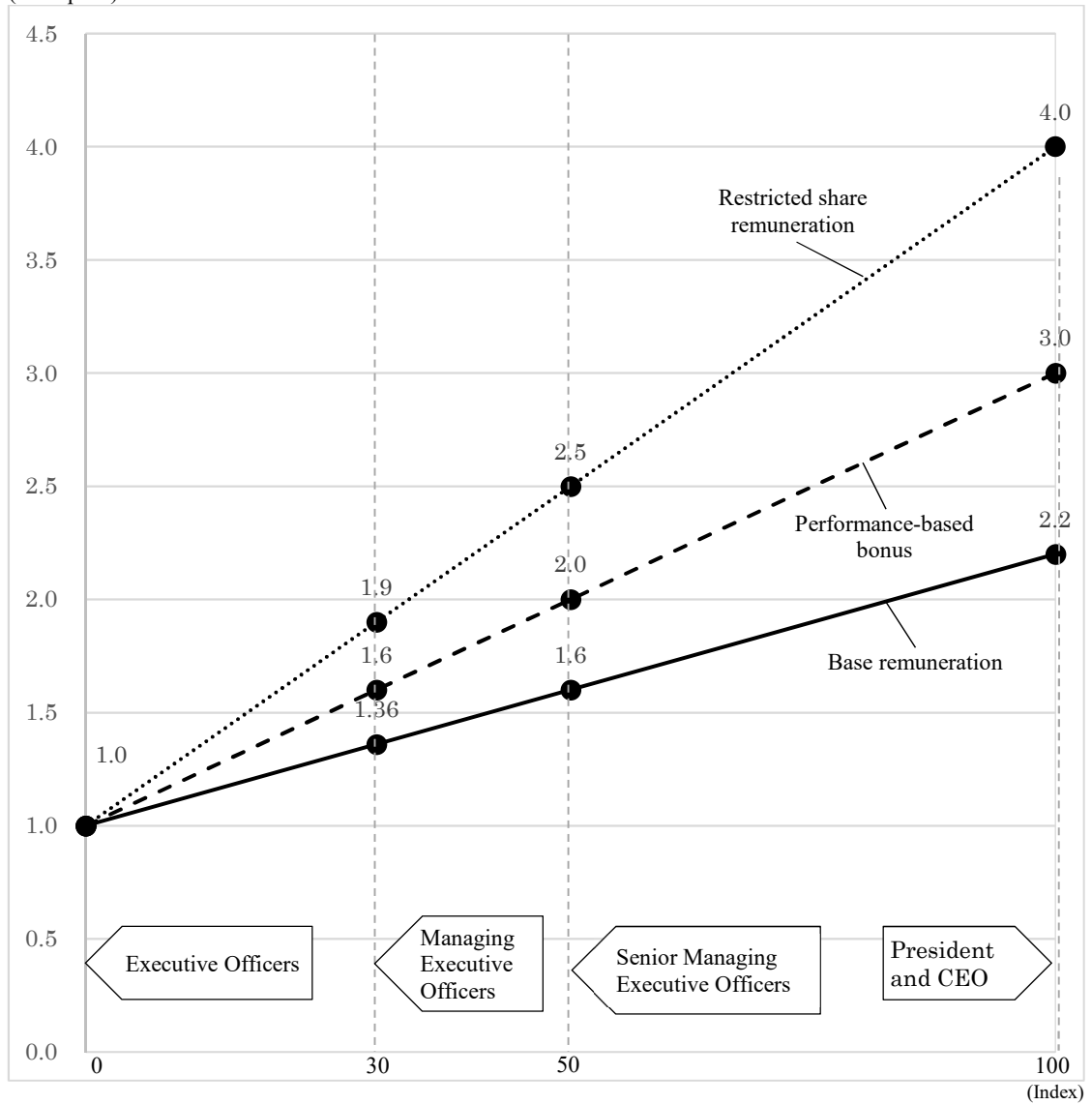
The Board of Directors determines the amount of remuneration for Directors (excluding Directors serving as Audit and Supervisory Committee Members) who hold concurrent positions as Executive Officers and Executive Officers following deliberations by the Nomination and Remuneration Committee, which consists of Audit and Supervisory Committee Members, while also being subject to regular monitoring through the submission of remuneration proposals to the Nomination and Remuneration Committee. The Nomination and Remuneration Committee engages in careful analysis of remuneration for Directors (excluding Directors serving as Audit and Supervisory Committee Members) who hold concurrent positions as Executive Officers and Executive Officers, from the perspective of whether it is appropriate for each individual's role, responsibilities, performance, and results, and whether it serves as an appropriate motivation to enhance corporate value. Remuneration for Directors (excluding Directors serving as Audit and Supervisory Committee Members) who do not hold concurrent positions as Executive Officers consists only of base remuneration.

(b) Policies regarding the determination of base remuneration, etc. for individuals

For the amount of remuneration for Directors (excluding Directors serving as Audit and Supervisory Committee Members) who hold concurrent positions as Executive Officers and Executive Officers, each individual's level of contribution is evaluated, taking into consideration the individual's position, performance, and other factors. For Directors (excluding Directors serving as Audit and Supervisory Committee Members) who do not hold concurrent positions as Executive Officers an amount to paid to each individual is determined in accordance with their responsibilities, etc.

- (c) Policies related to the determination of the details of performance indicators and amount of remuneration for performance-based remuneration, etc. as well as the calculation method thereof  
Taking consolidated net income in the relevant fiscal year as an indicator, an amount obtained by calculating a base value with a formula and multiplying this amount by a multiplier per position, in accordance with each Executive Officer's position in the relevant fiscal year, is paid to Directors (excluding Directors serving as Audit and Supervisory Committee Members) who hold concurrent positions as Executive Officers and Executive Officers as performance-based remuneration.
- (d) Policies related to the determination of the content and amount or number of shares for non-monetary remuneration, etc. and the calculation method thereof  
With the objective of promoting shared values with shareholders and clarifying incentives to sustainably enhance corporate value, restricted shares (with a transfer restriction period of 30 years from the day of allotment; transfer restrictions will be removed subject to the recipient retiring from the position of both Director and Executive Officer owing to the expiration of his or her term of office or other legitimate reason, etc.) are granted to Directors (excluding Directors serving as Audit and Supervisory Committee Members) who hold concurrent positions as Executive Officers and Executive Officers as non-monetary remuneration, and the number of shares to be granted is determined in accordance with position.
- (e) Policies regarding the determination of the ratio of each type of remuneration, etc.  
Individual remuneration for Directors (excluding Directors serving as Audit and Supervisory Committee Members) who hold concurrent positions as Executive Officers and Executive Officers is the amount and number of shares multiplied by a multiplier, which is as shown in Graph 1. The multiplier for each position is set such that the percentage of performance-based remuneration and restricted share remuneration increases as the position becomes more senior.

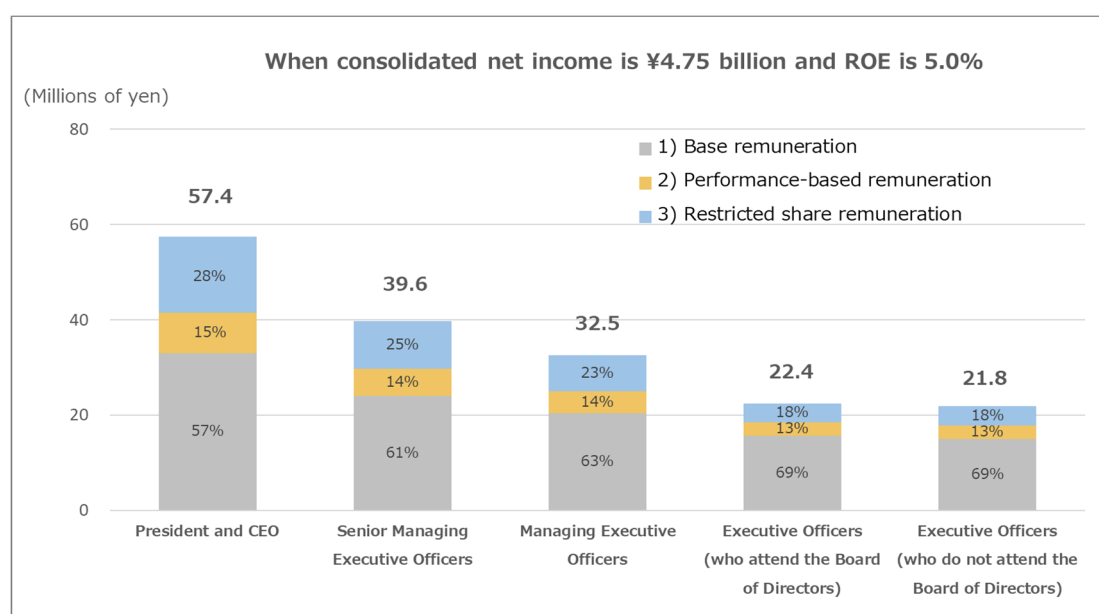
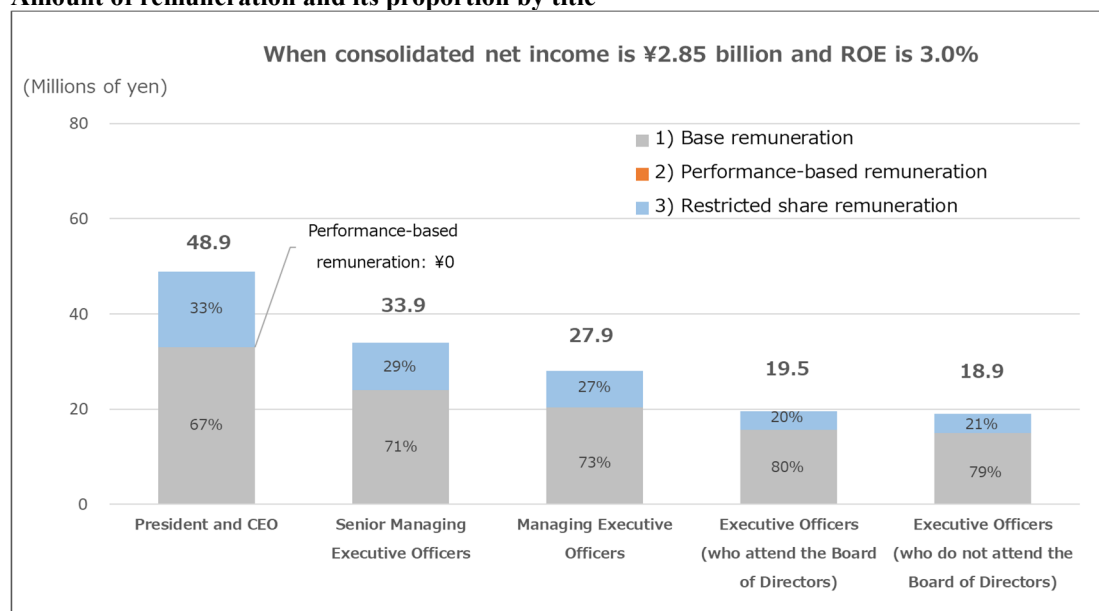
(Graph 1)  
**Multipliers for each executive level (by remuneration type)**  
 (Multiplier)



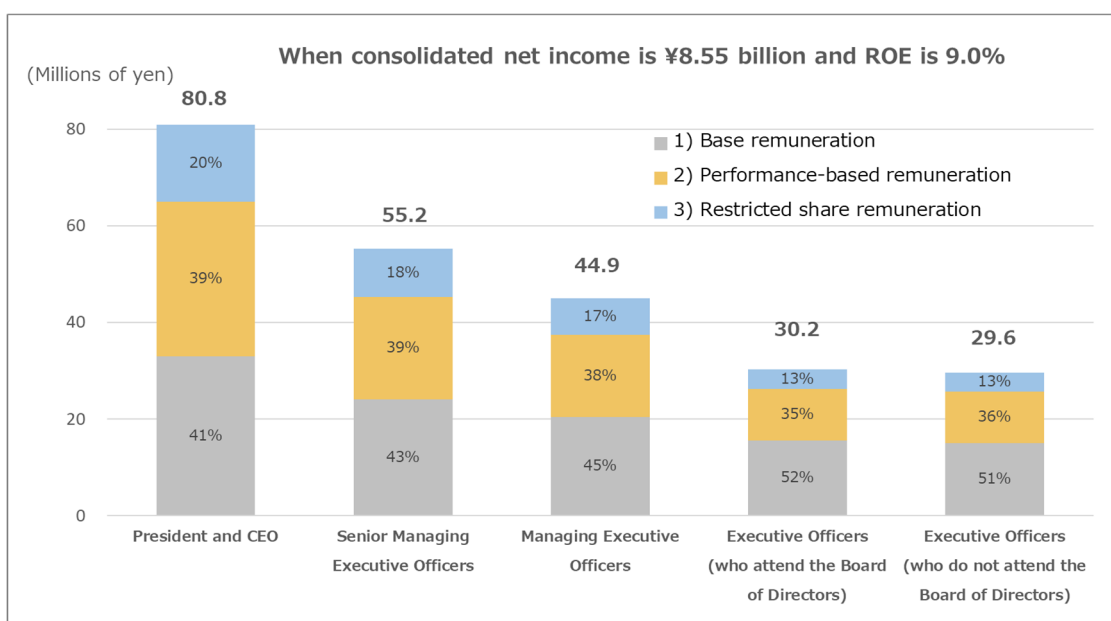
The amount of remuneration for Directors (excluding Directors serving as Audit and Supervisory Committee Members) who hold concurrent positions as Executive Officers and Executive Officers, and its proportion differs depending on the evaluation of each individual's level of contribution, the Company's business performance in the relevant fiscal year (consolidated net income (ROE)), which is used as a performance indicator, and each individual's position in the relevant fiscal year. Amounts when consolidated net income (ROE) is ¥2.85 billion (3.0%), ¥4.75 billion (5.0%), and ¥8.55 billion (9.0%) are as shown in Graph 2.

(Graph 2)

**Amount of remuneration and its proportion by title**







(f) Policies regarding the determination of the timing of granting remuneration, etc. and its conditions

Policies regarding the determination of the timing and conditions of each type of remuneration are as follows.

- Base remuneration is paid monthly as fixed monetary remuneration while the individual is in office.
- Performance-based remuneration is paid once per year on the day after the General Meeting of Shareholders after the end of each fiscal year.
- For restricted share remuneration, a number of shares according to each individual's position, determined by resolution of the Board following deliberation among the Nomination and Remuneration Committee, is granted to eligible Directors (excluding Directors serving as Audit and Supervisory Committee Members) who hold concurrent positions as Executive Officers and Executive Officers during their time in office. Transfer restrictions are removed subject to the recipient retiring from the position of both Director and Executive Officer owing to the expiration of his or her term of office or other legitimate reason, etc.

iii) Reasons the Board of Directors has judged that the content of individual remuneration for Directors (excluding Directors serving as Audit and Supervisory Committee Members) during the fiscal year under review complies with these policies for making decisions

With regard to the individual remuneration, etc. of Directors (excluding Directors serving as Audit and Supervisory Committee Members) during the fiscal year under review, the Board of Directors has confirmed that the methods of determining the content of remuneration, etc. and the content of remuneration, etc. determined are consistent with the policies for making decisions resolved by the Board of Directors, and it has also confirmed that the response of the Nomination and Remuneration Committee has been respected. As such, the Board of Directors has judged that individual remuneration, etc. for Directors (excluding Directors serving as Audit and Supervisory Committee Members) in the fiscal year under review complies with these policies on making decisions.

**8) Outside Officers**

- i) Significant concurrent positions as executives of other organizations and the Company's relation thereto  
No items to report
- ii) Significant concurrent positions as outside officers of other organizations and the Company's relation thereto

Title	Name	Significant concurrent positions	Relationship with the Company
Outside Director (Audit and Supervisory Committee Member)	Michiyo Hamada	Outside Board Member of AISIN CORPORATION	There are no special interests between AISIN CORPORATION and the Company.
		Outside Director of Toho Gas Co., Ltd.	There are no special interests between Toho Gas Co., Ltd. and the Company.

- iii) Kinship with the Company or specified affiliated business operator of the Company  
No items to report

iv) Main activities

Title	Name	Summary of duties performed by Outside Directors in relation to their expected duties
Outside Director (Audit and Supervisory Committee Member)	Masatoshi Hatori	Participated in all 15 Board of Directors' meetings, in all 17 Audit and Supervisory Committee meetings held in FY2022; possesses a wealth of experience and keen, specialist insight related to not only various materials businesses, but also the processing business as an individual with experience as a representative director of a listed company; and provided opinions on overall corporate management and materials in products handled by the Company at Board of Directors' meetings and the like.
Outside Director (Audit and Supervisory Committee Member)	Michiyo Hamada	Participated in all 15 Board of Directors' meetings, in all 17 Audit and Supervisory Committee meetings held in FY2022; possesses a wealth of experience and keen, specialist insight as a scholar of corporate law and ex-commissioner of the Japan Fair Trade Commission; and provided opinions on corporate law and the Company's efforts to promote women's participation and advancement in the workplace at Board of Directors' meetings and the like.
Outside Director (Audit and Supervisory Committee Member)	Kenichi Udagawa	Participated in all 15 Board of Directors' meetings, in all 17 Audit and Supervisory Committee meetings held in FY2022; contributed to the establishment and expansion of various overseas businesses at a listed company; possesses a wealth of experience and keen, specialist insight as an individual with experience as a representative director; and provided opinions on overall corporate management and the Company's overseas business operation at Board of Directors' meetings and the like.
Outside Director (Audit and Supervisory Committee Member)	Osamu Terada	Participated in all 15 Board of Directors' meetings, in all 17 Audit and Supervisory Committee meetings held in FY2022; contributed to the expansion of the construction business in Japan at a listed company (a major construction company); possesses a wealth of experience and keen, specialist insight as an individual with experience as a representative director; and provided opinions on overall corporate management and the overall construction industry at the Board of Directors' meetings and the like.

Note: Outside Director Michiyo Hamada serves as a chairman of the Nomination and Remuneration Committee, and Outside Directors Masatoshi Hatori, Kenichi Udagawa and Osamu Terada serve as members of the Nomination and Remuneration Committee. Michiyo Hamada, Masatoshi Hatori, Kenichi Udagawa and Osamu Terada participated in all 16 Nomination and Remuneration Committee meetings held in FY2022. They fulfilled an important role by deliberating the nomination and remuneration of Directors, etc., and providing reports to the Board of Directors.

**(4) Accounting Auditor**

**1) Accounting Auditor's Name**

PricewaterhouseCoopers Aarata LLC

**2) Accounting Auditor's Compensation, etc.**

	Amount payable (Millions of yen)
Amount of Accounting Auditor's Compensation, etc. payable by the Company for the current fiscal year	72
Total amount of cash and other property benefits payable by the Company and its subsidiaries to Accounting Auditor	72

- Notes: 1. The audit contract between the Company and Accounting Auditor does not clearly distinguish between compensation, etc. paid for the audit conducted in accordance with the Companies Act of Japan and compensation, etc. paid for the audit conducted in accordance with the Financial Instruments and Exchange Act. It is practically impossible to make such a distinction. Accordingly, the amount specified above is the aggregate amount of compensation, etc. for these two types of audits.
2. The Audit and Supervisory Committee has received explanations from the Accounting Auditor. Then the Committee has made the requisite investigation into the appropriateness of the Accounting Auditor's details of audit plans for the current fiscal year, including the number of days of and personnel allotment for auditing, the validation and evaluation of audit result for the previous fiscal year, the appropriateness of audit execution by the Accounting Auditor, and the calculation basis for their estimated compensation. As a result of these deliberations, it has concluded that these are appropriate and it consented to the amount of the compensation, etc. of the Accounting Auditor.
3. Some of the Company's significant overseas subsidiaries are audited by certified public accountants or auditing firms other than the Company's Accounting Auditor (including those who have qualifications equivalent to these qualifications in foreign countries).

**3) Non-auditing Services**

There were no non-auditing services performed in the fiscal year under review.

**4) Policy Regarding Determination of Termination or Nonrenewal of Appointment of Accounting Auditors**

When it is deemed that the Accounting Auditor falls into the categories stipulated under each item of Article 340, paragraph 1 of the Companies Act of Japan, the Accounting Auditor will be dismissed based on the unanimous agreement of the Audit and Supervisory Committee Members. In this event, the Audit and Supervisory Committee Member appointed by the Audit and Supervisory Committee shall report the fact of the dismissal of the Accounting Auditor and the reasons for it to the first Ordinary General Meeting of Shareholders to be convened following the dismissal. With regard to the continuation of the audit by the Accounting Auditor, the Audit and Supervisory Committee determines the appropriateness of the audit by the Accounting Auditor every fiscal year in accordance with the given evaluation criteria, and the maximum term of office of the Accounting Auditor is set as ten years in principle, as the Committee's policy. Based on these internal rules, the Audit and Supervisory Committee determines proposals related to the nonrenewal of appointment and submit it to the Ordinary General Meeting of Shareholders as necessary.

**(5) System to Ensure the Propriety of the Business Operations and Operational Status of the System**

**1) Decisions and Resolutions related to System to Ensure the Propriety of the Business Operations**

The “System to Ensure the Propriety of the Business Operations (Basic Policy on the Company’s System for Internal Control)” of the Company was established at the meeting of the Board of Directors held on May 11, 2006 and has been revised six times since then in response to, among others, changes in the Regulation for Enforcement of the Companies Act and the shift to a company with an Audit and Supervisory Committee.

Date of Board of Directors held	Outline of contents of resolutions
April 1, 2015	In accordance with the revised Regulation for Enforcement of the Companies Act, revisions related to 1. System to Ensure the Propriety of the Business Operations of the Sangetsu Group and 2. Systems to Assist Audits and other items have been made.
July 10, 2015	In line with the transition to a company with an Audit and Supervisory Committee, revisions have been made in accordance with the Companies Act of Japan and Regulation for Enforcement of the Companies Act.
March 11, 2016	Prior to the adoption of an executive officer system, the addition of the objective of adoption of the system and other necessary revisions have been made.
April 14, 2017	In conjunction with the introduction of a department-in-charge system by the Company for the management of its subsidiaries, necessary changes were made.
April 12, 2019	The Nomination and Remuneration Advisory Committee has been renamed as the Nomination and Remuneration Committee and necessary changes have been made in conjunction with the revision of its role and positioning.
April 9, 2021	In conjunction with revisions as a result of the separation of management supervision functions and business execution functions, necessary changes were made.

The latest version of “Basic Policy on the Company’s System for Internal Control” is as follows:

- I System to Ensure the Propriety of the Business Operations
1. System to ensure that Directors, Executive Officers and employees execute their duties in compliance with relevant laws and regulations and the Articles of Incorporation of the Company
    - (1) The Company shall establish the Sangetsu Group Human Rights Policy, Sangetsu Group Corporate Charter and Compliance Code of Conduct as a code of conduct to ensure conduct of Directors, Executive Officers and employees is in compliance with laws and regulations, the Articles of Incorporation and societal norms, and develop and consolidate regulations relating to compliance.
    - (2) The Company shall establish a compliance committee, for which the President and CEO has ultimate responsibility, as a body to deliberate significant matters relating to the promotion of compliance.
    - (3) The Company shall nominate an Executive Officer to be in charge of compliance in order to supervise compliance activities on a cross-Group basis.
    - (4) Head of each department shall be responsible for maintaining and improving the system for the promotion of compliance with laws and regulations, and internal rules in the relevant department. Furthermore, compliance leaders who promote compliance activities shall be appointed in each branch and department.
    - (5) The Audit Office, set up in the Management Audit Department shall conduct internal audit on the propriety of operation.
    - (6) The Internal Control Section, set up in the Management Audit Department, shall work to promote and enhance internal control in order to secure propriety and reliability in financial reporting.
    - (7) The Company shall establish a helpline, where employees and others may report compliance problems, and designate a contact within the company and an external law office to be in charge of such matters. Furthermore, the Company shall prohibit any adverse treatment based on the fact that such a report has been made by the person.
  2. System to store and control information related to execution of duties by Directors and Executive Officers
    - (1) The Company shall record information related to the execution of duties by Directors and Executive Officers in documents or by electronic media, and retain and manage this information in accordance with its rules on the retention of documentary records.
    - (2) The aforementioned documents and other materials related to the execution of duties by Directors and Executive Officers shall be kept available for inspection and copying at the request of the Audit and Supervisory Committee Members designated by the Audit and Supervisory Committee.
  3. Rules and other systems for managing risk of loss
    - (1) The Company shall establish Risk Management Rules, etc. with the aim of management of and response to various risks surrounding the Company.
    - (2) The Company shall establish a risk management committee, for which the President and CEO has ultimate responsibility, as a body to oversee the Group-wide risk management.
    - (3) The Company shall nominate an Executive Officer to be in charge of risk in order to supervise risk management activities of all Group companies.
    - (4) The Company shall establish risk management subcommittees in response to various risks, and appoint persons in charge for each subcommittee. Each risk management subcommittee shall deliberate issues on and countermeasures against risk in charge, and responds to them responsibly.

4. System to ensure that Directors and Executive Officers execute their duties efficiently
  - (1) With the aim of the agile business operations and clarification of operating responsibilities by separating decision-making and supervisory functions in the management from executive functions, the Company shall adopt an executive officer system.
  - (2) The Company shall hold regular meetings of the Board of Directors once a month in principle, and matters such as deliberations and decisions on important items related to the management policies and strategies shall be handled at these meetings.
  - (3) The Board of Directors may, in accordance with the Articles of Incorporation and Board of Directors regulations, delegate all or part of decisions on important business execution issues to Representative Director. The important business execution issues delegated to Directors shall be deliberated at the Management Meeting, comprised of Executive Officers and others.
  - (4) Executive Officers shall take charge of and execute their duties in accordance with the Rules on Division of Duties and Rules on Authority regarding Duties.
  - (5) The Company shall formulate the management plan from a medium- to long-term perspective regularly. In order to realize the management plan, budgets with companywide goals for each fiscal year shall be set and each department shall execute detailed plan aimed at the goals.
  - (6) The Group-wide meeting, comprised of Executive Officers, heads of departments and others, shall be convened regularly to share information on the implementation of the management plan and monitor its progress.
5. System relating to the Sangetsu Group comprising the Company and its subsidiaries
  - (1) System concerning the reporting of matters to the Company related to the execution of duties performed by Directors of subsidiaries  
 Subsidiary and Affiliates Management Regulations and Standards for Matters at Subsidiaries and Affiliates Requiring Approval and Reporting shall be established, and a system shall be put in place for reporting to the Company of the diverse matters occurring at subsidiaries. The Company shall introduce a department-in-charge system for the management of its subsidiaries.
  - (2) Rules and other systems for managing risk of loss at subsidiaries  
 Risk Management Regulations, Business Investment Risk Management Regulations, Subsidiary and Affiliates Management Regulations and Standards for Matters at Subsidiaries and Affiliates Requiring Approval and Reporting and other rules shall be established, and a system shall be put in place for the Company to manage the diverse risks, including the occurrence of loss, at subsidiaries.  
 In addition, monthly reports shall be made to the Company's Board of Directors in order to manage the various risks. Furthermore, regulations handling risks shall be put in place by subsidiaries themselves, thereby adding to the system for risk management.
  - (3) System to ensure that subsidiary Directors execute their duties efficiently  
 Subsidiary and Affiliates Management Regulations and Standards for Matters at Subsidiaries and Affiliates Requiring Approval and Reporting shall be established, and a system shall be put in place to ensure that subsidiary Directors are able to execute their duties efficiently. In addition, rules on the division of duties shall be put in place by subsidiaries themselves for the distribution of work responsibilities in order to allow the efficient execution of duties.
  - (4) System to ensure that subsidiary Directors and employees execute their duties in compliance with relevant laws and regulations and the Articles of Incorporation of the Company  
 The Company shall establish the Sangetsu Group Human Rights Policy, Sangetsu Group Corporate Charter and Compliance Code of Conduct in order to maintain and improve the overall compliance framework of the Group. In addition, the Company shall establish a helpline with a designated external law office available also for employees at subsidiaries to contact with reports.

- II Systems to Assist Execution of Duties by the Audit and Supervisory Committee
1. Matters relating to employees who assist in the duties of the Audit and Supervisory Committee
    - (1) In order to assist the Audit and Supervisory Committee, the Company shall establish the Audit and Supervisory Committee Department with employees who serve dedicated and concurrently with their other posts.
    - (2) Assignments, transfers and evaluations for employees belonging to the Audit and Supervisory Committee Department require the consent of Audit and Supervisory Committee to ensure the independence from Directors (excluding Audit and Supervisory Committee Members (here and elsewhere in II)) and Executive Officers.
    - (3) Employees belonging to the Audit and Supervisory Committee Department assist in the duties of Audit and Supervisory Committee under the direction of Audit and Supervisory Committee.
    - (4) Employees belonging to the Audit and Supervisory Committee Department shall not be subject to instructions and orders from Directors and Executive Officers concerning the duties to assist Audit and Supervisory Committee. Employees belonging to the Audit and Supervisory Committee Department who serve concurrently with other posts shall carry out the instructions given by Audit and Supervisory Committee Members as top priority.
  2. Systems relating to the reporting to the Audit and Supervisory Committee
    - (1) Audit and Supervisory Committee Members shall receive reports regularly from Directors and Executive Officers on the status of execution of duties in charge at the Board of Directors. In addition, Audit and Supervisory Committee Members shall receive reports regularly on the status of the Boards of Directors of subsidiaries from Directors and Auditors dispatched to the Company's subsidiaries.
    - (2) Directors and Executive Officers shall, in the event of situations that may cause significant damage to the Company, swiftly report such matters to Audit and Supervisory Committee personally or through the heads of relevant departments.
    - (3) Audit and Supervisory Committee Members designated by Audit and Supervisory Committee shall attend important meetings, examine records, minutes, or other documents related to the execution of business, and request as necessary explanations from Directors, Executive Officers or employees.
    - (4) Audit and Supervisory Committee Members designated by Audit and Supervisory Committee shall visit subsidiaries, and examine records, minutes, or other documents related to the execution of business, and request as necessary explanations from subsidiary Directors or employees.
    - (5) Officers and employees of the Group may report compliance problems directly to Audit and Supervisory Committee or its members without using the Company's helpline. In such case, the Company prohibits any adverse treatment based on the fact that such a report has been made by the person.
  3. Items concerning policies for handling of expenses and debts arising from the execution of duties by the Audit and Supervisory Committee
    - (1) All expenses necessary for the duties of Audit and Supervisory Committee shall be recorded in an independent budget every fiscal period and processed promptly based on expense payment standards.
    - (2) Audit and Supervisory Committee, on its own initiative, may use external experts, etc., where necessary, and the Company shall then bear those expenses.
  4. Other Systems to ensure that Audit and Supervisory Committee execute their audits effectively
    - (1) With the aim of effective audit execution, Audit and Supervisory Committee shall cooperate with the internal audit department and internal control department.
    - (2) Audit and Supervisory Committee shall formulate the policy and plan for audit annually and report them to the Board of Directors.
    - (3) In order to enhance auditing effectiveness, Audit and Supervisory Committee shall receive reports on the status of responses to issues identified in the audits at the Board of Directors meetings or on other occasions, and give feedback to them.
    - (4) Audit and Supervisory Committee shall exchange information regularly on matters including audits with President and CEO and Accounting Auditor.



## 2) Outline of Operational status of System to Ensure the Propriety of the Business Operations

- i) Operational status of compliance system
  - The Compliance Committee has been held four times in the current fiscal year, where they formulated the compliance program for the year and promoted initiatives such as checking its progress, instruction for its revisions, and other compliance activities.
  - In accordance with the enforcement of the revised Whistleblower Protection Act, a contact point was established at the Headquarters of the Company to receive reports from officers and employees of domestic Group companies, and related internal regulations were revised and a system was installed so that the contact point is available to all domestic Group companies.
  - Compliance training was provided to managers in charge of compliance promotion, etc.
  - Subcontract Act training was provided to newly assigned employees at Interior Business Unit.
  - Basic compliance trainings were provided to both new managers and new employees respectively.
  
- ii) Operational status of risk management system
  - The Company has established nine subcommittees (sales and credit risk, logistics risk, product development risk, inventory and purchase risk, overseas business risk, labor management risk, disaster, environment and other risk, information security risk, and climate change risk) under the Risk Management Committee.
  - The Risk Management Committee has been held four times in the current fiscal year, where they examined countermeasures against the potential risks discussed at each subcommittee.
  - The risk management system is operated aiming to achieve the status in which the control levels of each risk are identified and effectively managed.
  - In response to the COVID-19 risk, the Company, led by the COVID-19 Task Force headed by the President and CEO implemented measures adapted for business risk, such as the promotion of working from home based on active utilization of teleworking, the maintenance of shipping and distribution systems at logistics centers, including in emergencies, and collaboration with suppliers to maintain supply chains. From October onward, measures to prevent infection and control outbreaks of internal clusters were focused on while revitalizing business activities.
  - In addition to management of the above risks, risks that have partially materialized and various risks surrounding the Company were defined as “risks that must be considered in the future” and risks were identified. The lead and related departments were clarified for each risk item, and discussions were held in the related departments to review the risk items.
  
- iii) Operational status of system for effective business execution
  - The Company introduced an executive officer system effective April 1, 2016 to speed up business execution and clarify executive responsibilities, and the Management Meeting, which consists mainly of Executive Officers, has been held 11 times in the current fiscal year.
  - The regular meeting of the Board of Directors has been held 12 times, the extraordinary meeting of the Board of Directors has been held three times, and written resolution has been made one time in the current fiscal year.
  - Executive officers in charge of the overseas business and the President’s office were appointed to strengthen the business execution function.
  - The Board of Directors delegated the following matters of the important business execution issues to Representative Director in the current fiscal year:
    - 1) Establishment, change and abolition of branches and other significant organizations
    - 2) Decision on the basic policy related to employee hiring, salaries and bonuses
    - 3) Approval of the draft for annual budgets
  - Business Issue Review Meetings were held 11 times in the current fiscal year as venues to discuss business and operational issues.
  - Considering the situation where rising raw material prices lead to an increase in purchase prices and the increase is reflected in selling prices, the Company clarified preconditions for budgeting, promoted the progress management for the preconditions, and discussed the achievement of the budget at each meeting.
  - The Company proceeded to formulate the framework of the next Medium-term Business Plan for FY2023 and beyond.

- iv) Operational status of the Group
  - Under the department-in-charge system introduced on April 1, 2017, for each subsidiary and affiliate, the department in charge of its management has been designated to strengthen the consolidated management of the Sangetsu Group.
  
- v) Operational status of Audit and Supervisory Committee
  - The Audit and Supervisory Committee meeting has been held 17 times in the current fiscal year.

**(6) Basic Policy on Control of the Company**

There are no items to report.

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Note: Monetary amounts and numbers of shares provided in this business report are presented with fractional units discarded.

## Consolidated Financial Statements

(April 1, 2022 - March 31, 2023)

### Consolidated Balance Sheet

(As of March 31, 2023)

(Millions of yen)

Item	71st term As of March 31, 2023	(Reference) 70th term As of March 31, 2022	Item	71st term As of March 31, 2023	(Reference) 70th term As of March 31, 2022
<b>ASSETS</b>			<b>LIABILITIES</b>		
<b>Current assets</b>	<b>104,843</b>	<b>87,525</b>	<b>Current liabilities</b>	<b>56,565</b>	<b>40,758</b>
Cash and deposits	24,817	18,347	Notes and accounts payable - trade	15,410	13,810
Notes receivable - trade	9,812	9,111	Contract liabilities	1,026	1,240
Accounts receivable - trade	26,671	24,743	Electronically recorded obligations - operating	14,420	12,741
Contract assets	214	293	Short-term loans payable	801	862
Electronically recorded monetary claims - operating	19,512	16,028	Current portion of long-term loans payable	7,801	1,101
Securities	300	300	Lease obligations	439	114
Merchandise and finished goods	18,166	14,700	Income taxes payable	5,734	2,777
Work in process	256	179	Provision for bonuses	3,175	1,983
Raw materials and supplies	2,503	2,843	Provision for directors' bonuses	267	-
Other	3,075	1,448	Provision for product warranties	532	460
Allowance for doubtful accounts	(487)	(471)	Other	6,956	5,666
<b>Non-current assets</b>	<b>59,610</b>	<b>60,417</b>	<b>Non-current liabilities</b>	<b>12,063</b>	<b>18,857</b>
<b>Property, plant and equipment</b>	<b>36,825</b>	<b>35,285</b>	Long-term loans payable	-	7,734
Buildings and structures	10,601	11,729	Lease obligations	1,413	284
Machinery, equipment and vehicles	5,219	5,613	Deferred tax liabilities	269	395
Tools, furniture and fixtures	797	877	Provision for directors' retirement benefits	26	20
Land	16,634	16,435	Net defined benefit liability	8,525	8,671
Leased assets	1,777	513	Asset retirement obligations	1,153	1,144
Construction in progress	1,794	116	Long-term accounts payable - other	13	1
<b>Intangible assets</b>	<b>3,512</b>	<b>4,058</b>	Other	661	604
Software	1,340	1,794	<b>Total liabilities</b>	<b>68,629</b>	<b>59,616</b>
Goodwill	1,340	1,474	<b>NET ASSETS</b>		
Other	831	789	<b>Shareholders' equity</b>	<b>94,056</b>	<b>87,019</b>
<b>Investments and other assets</b>	<b>19,273</b>	<b>21,073</b>	<b>Capital stock</b>	<b>13,616</b>	<b>13,616</b>
Investment securities	6,182	8,656	<b>Capital surplus</b>	<b>17,150</b>	<b>19,773</b>
Investment property	4,968	5,421	<b>Retained earnings</b>	<b>64,138</b>	<b>54,537</b>
Guarantee deposits	1,855	1,504	<b>Treasury shares</b>	<b>(849)</b>	<b>(907)</b>
Deferred tax assets	5,229	4,425	<b>Accumulated other comprehensive income</b>	<b>1,685</b>	<b>788</b>
Other	1,153	1,171	<b>Valuation difference on available-for-sale securities</b>	<b>1,269</b>	<b>1,258</b>
Allowance for doubtful accounts	(116)	(106)	<b>Deferred gains or losses on hedges</b>	<b>(39)</b>	<b>6</b>
			<b>Foreign currency translation adjustment</b>	<b>1,157</b>	<b>567</b>
			<b>Remeasurements of defined benefit plans</b>	<b>(702)</b>	<b>(1,043)</b>
			<b>Share acquisition rights</b>	<b>69</b>	<b>71</b>
			<b>Non-controlling interests</b>	<b>13</b>	<b>446</b>
			<b>Total net assets</b>	<b>95,825</b>	<b>88,326</b>
<b>Total assets</b>	<b>164,454</b>	<b>147,943</b>	<b>Total liabilities and net assets</b>	<b>164,454</b>	<b>147,943</b>

## Consolidated Statement of Income

(April 1, 2022 - March 31, 2023)

	(Millions of yen)	
Item	71st term (April 1, 2022 - March 31, 2023)	(Reference) 70th term (April 1, 2021 - March 31, 2022)
<b>Net sales</b>	<b>176,022</b>	<b>149,481</b>
<b>Cost of sales</b>	<b>119,647</b>	<b>109,519</b>
<b>Gross profit</b>	<b>56,374</b>	<b>39,962</b>
Selling, general and administrative expenses	36,094	32,002
<b>Operating income</b>	<b>20,280</b>	<b>7,959</b>
<b>Non-operating income</b>	<b>876</b>	<b>544</b>
Interest and dividend income	213	212
Rental income from real estate	450	155
Share of profit of entities accounted for using equity method	0	-
Other	211	176
<b>Non-operating expenses</b>	<b>466</b>	<b>300</b>
Interest expenses	214	89
Rental expenses on real estate	147	135
Foreign exchange losses	83	23
Commission for purchase of treasury shares	-	4
Share of loss of entities accounted for using equity method	-	10
Other	20	36
<b>Ordinary income</b>	<b>20,690</b>	<b>8,203</b>
<b>Extraordinary income</b>	<b>216</b>	<b>980</b>
Gain on sales of non-current assets	5	82
Gain on sales of investment securities	52	543
Gain on sales of shares of subsidiaries and associates	128	-
Subsidy income	10	90
Settlement income	-	250
Other	19	13
<b>Extraordinary losses</b>	<b>464</b>	<b>5,676</b>
Loss on sales and retirement of non-current assets	11	75
Loss on sales of investment securities	148	-
Loss on sales of shares of subsidiaries and associates	-	7
Impairment loss	303	5,593
Other	-	0
<b>Income before income taxes</b>	<b>20,442</b>	<b>3,506</b>
Income taxes - current	7,436	4,013
Income taxes - deferred	(998)	(917)
<b>Net income</b>	<b>14,005</b>	<b>410</b>
Profit attributable to non-controlling interests	-	133
<b>Profit attributable to owners of parent</b>	<b>14,005</b>	<b>276</b>

## Consolidated Statement of Changes in Equity

(April 1, 2022 - March 31, 2023)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	13,616	19,773	54,537	(907)	87,019
Cumulative effect of changes in accounting policies					–
Restated balance reflecting changes in accounting policies	13,616	19,773	54,537	(907)	87,019
Changes of items during period					
Dividends of surplus			(4,399)		(4,399)
Profit attributable to owners of parent			14,005		14,005
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares			(3)	57	54
Retirement of treasury shares					–
Exercise of share acquisition rights					–
Purchase of shares of consolidated subsidiaries		(2,622)			(2,622)
Net changes of items other than shareholders' equity					
Total changes of items during period	–	(2,622)	9,601	57	7,036
Balance at end of current period	13,616	17,150	64,138	(849)	94,056

	Accumulated other comprehensive income					Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	1,258	6	567	(1,043)	788	71	446	88,326
Cumulative effect of changes in accounting policies								–
Restated balance reflecting changes in accounting policies	1,258	6	567	(1,043)	788	71	446	88,326
Changes of items during period								
Dividends of surplus								(4,399)
Profit attributable to owners of parent								14,005
Purchase of treasury shares								(0)
Disposal of treasury shares								54
Retirement of treasury shares								–
Exercise of share acquisition rights								–
Purchase of shares of consolidated subsidiaries								(2,622)
Net changes of items other than shareholders' equity	11	(45)	589	341	896	(1)	(432)	461
Total changes of items during period	11	(45)	589	341	896	(1)	(432)	7,498
Balance at end of current period	1,269	(39)	1,157	(702)	1,685	69	13	95,825

**(Reference) Consolidated Statement of Changes in Equity**  
(April 1, 2021 - March 31, 2022)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	13,616	19,773	61,387	(1,579)	93,196
Cumulative effect of changes in accounting policies			14		14
Restated balance reflecting changes in accounting policies	13,616	19,773	61,401	(1,579)	93,211
Changes of items during period					
Dividends of surplus			(3,828)		(3,828)
Profit attributable to owners of parent			276		276
Purchase of treasury shares				(2,688)	(2,688)
Disposal of treasury shares			(4)	48	43
Retirement of treasury shares			(3,308)	3,308	–
Exercise of share acquisition rights			0	4	4
Purchase of shares of consolidated subsidiaries					–
Net changes of items other than shareholders' equity					
Total changes of items during period	–	–	(6,864)	672	(6,192)
Balance at end of current period	13,616	19,773	54,537	(907)	87,019

	Accumulated other comprehensive income					Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	1,849	0	(120)	(1,564)	163	76	311	93,749
Cumulative effect of changes in accounting policies								14
Restated balance reflecting changes in accounting policies	1,849	0	(120)	(1,564)	163	76	311	93,763
Changes of items during period								
Dividends of surplus								(3,828)
Profit attributable to owners of parent								276
Purchase of treasury shares								(2,688)
Disposal of treasury shares								43
Retirement of treasury shares								–
Exercise of share acquisition rights								4
Purchase of shares of consolidated subsidiaries								–
Net changes of items other than shareholders' equity	(590)	5	688	520	624	(4)	134	755
Total changes of items during period	(590)	5	688	520	624	(4)	134	(5,437)
Balance at end of current period	1,258	6	567	(1,043)	788	71	446	88,326

## Non-consolidated Financial Statements

(April 1, 2022 - March 31, 2023)

### Non-consolidated Balance Sheet

(As of March 31, 2023)

(Millions of yen)

Item	71st term As of March 31, 2023	(Reference) 70th term As of March 31, 2022	Item	71st term As of March 31, 2023	(Reference) 70th term As of March 31, 2022
<b>ASSETS</b>			<b>LIABILITIES</b>		
<b>Current assets</b>	<b>90,402</b>	<b>73,856</b>	<b>Current liabilities</b>	<b>47,644</b>	<b>32,023</b>
Cash and deposits	16,630	11,537	Electronically recorded obligations - operating	14,178	12,460
Notes receivable - trade	8,863	8,001	Accounts payable - trade	11,304	10,230
Electronically recorded monetary claims - operating	19,257	15,973	Contract liabilities	59	273
Accounts receivable - trade	20,128	18,671	Short-term loans payable	801	-
Contract assets	68	275	Current portion of long-term loans payable	7,801	1,101
Securities	300	300	Lease obligations	0	1
Merchandise and finished goods	14,707	12,191	Accounts payable - other	2,426	2,234
Work in process	6	0	Income taxes payable	5,326	2,449
Raw materials and supplies	1,346	1,795	Provision for bonuses	2,546	1,508
Short-term loans receivable from subsidiaries and associates	6,545	4,231	Provision for directors' bonuses	267	-
Other	2,682	1,018	Provision for product warranties	155	208
Allowance for doubtful accounts	(134)	(141)	Other	2,777	1,553
<b>Non-current assets</b>	<b>61,678</b>	<b>59,635</b>	<b>Non-current liabilities</b>	<b>7,601</b>	<b>14,999</b>
<b>Property, plant and equipment</b>	<b>25,113</b>	<b>26,481</b>	Long-term loans payable	-	7,734
Buildings	8,197	8,797	Lease obligations	2	3
Structures	146	169	Provision for retirement benefits	5,832	5,561
Machinery and equipment	2,385	2,799	Asset retirement obligations	1,104	1,096
Vehicles	113	131	Currency swap	16	-
Tools, furniture and fixtures	606	617	Long-term deposits received	645	604
Land	13,613	13,917	<b>Total liabilities</b>	<b>55,245</b>	<b>47,022</b>
Leased assets	3	4	<b>NET ASSETS</b>		
Construction in progress	48	44	<b>Shareholders' equity</b>	<b>95,566</b>	<b>85,157</b>
<b>Intangible assets</b>	<b>1,347</b>	<b>1,776</b>	<b>Capital stock</b>	<b>13,616</b>	<b>13,616</b>
Software	1,276	1,706	<b>Capital surplus</b>	<b>20,005</b>	<b>20,005</b>
Other	71	69	Legal capital surplus	20,005	20,005
<b>Investments and other assets</b>	<b>35,217</b>	<b>31,377</b>	<b>Retained earnings</b>	<b>62,793</b>	<b>52,442</b>
Investment securities	5,916	8,226	Legal retained earnings	3,404	3,404
Shares of subsidiaries and associates	12,523	9,702	Other retained earnings	59,389	49,038
Long-term loans receivable from subsidiaries and associates	6,195	4,361	General reserve	45,000	50,000
Investment property	4,968	5,059	Retained earnings brought forward	14,389	(961)
Deferred tax assets	4,066	3,323	<b>Treasury shares</b>	<b>(849)</b>	<b>(907)</b>
Insurance funds	641	641	<b>Valuation and translation adjustments</b>	<b>1,199</b>	<b>1,240</b>
Guarantee deposits	1,688	1,353	<b>Valuation difference on available-for-sale securities</b>	<b>1,238</b>	<b>1,234</b>
Other	439	488	<b>Deferred gains or losses on hedges</b>	<b>(39)</b>	<b>6</b>
Allowance for doubtful accounts	(1,223)	(1,780)	<b>Share acquisition rights</b>	<b>69</b>	<b>71</b>
<b>Total assets</b>	<b>152,081</b>	<b>133,492</b>	<b>Total net assets</b>	<b>96,835</b>	<b>86,470</b>
			<b>Total liabilities and net assets</b>	<b>152,081</b>	<b>133,492</b>



## Non-consolidated Statement of Income (April 1, 2022 - March 31, 2023)

	(Millions of yen)	
Item	71st term (April 1, 2022 - March 31, 2023)	(Reference) 70th term (April 1, 2021 - March 31, 2022)
<b>Net sales</b>	<b>140,052</b>	<b>120,891</b>
<b>Cost of sales</b>	<b>97,812</b>	<b>91,608</b>
<b>Gross profit</b>	<b>42,239</b>	<b>29,283</b>
Selling, general and administrative expenses	22,513	20,663
<b>Operating income</b>	<b>19,726</b>	<b>8,620</b>
<b>Non-operating income</b>	<b>1,300</b>	<b>656</b>
Interest and dividend income	792	442
Rental income from real estate	428	122
Other	80	90
<b>Non-operating expenses</b>	<b>337</b>	<b>214</b>
Interest expenses	157	68
Commission for purchase of treasury shares	—	4
Foreign exchange losses	42	14
Rental expenses on real estate	128	110
Other	8	16
<b>Ordinary income</b>	<b>20,690</b>	<b>9,062</b>
<b>Extraordinary income</b>	<b>616</b>	<b>823</b>
Gain on sales of non-current assets	0	4
Gain on sales of investment securities	52	543
Gain on sales of shares of subsidiaries and associates	—	25
Reversal of allowance for doubtful accounts	561	—
Settlement income	—	250
Other	1	0
<b>Extraordinary losses</b>	<b>458</b>	<b>8,580</b>
Loss on sales and retirement of non-current assets	6	52
Loss on sales of investment securities	148	—
Loss on valuation of shares of subsidiaries and associates	—	6,849
Loss on sales of shares of subsidiaries and associates	—	4
Provision of allowance for doubtful accounts	—	1,674
Impairment loss	303	—
<b>Income before income taxes</b>	<b>20,848</b>	<b>1,305</b>
Income taxes - current	6,785	3,506
Income taxes - deferred	(691)	(764)
<b>Net income (loss)</b>	<b>14,754</b>	<b>(1,436)</b>

**Non-consolidated Statement of Changes in Equity**  
(April 1, 2022 - March 31, 2023)

(Millions of yen)

	Shareholders' equity								
	Capital stock	Capital surplus		Legal retained earnings	Retained earnings			Treasury shares	Total shareholders' equity
		Legal capital surplus	Total capital surpluses		Other retained earnings		Total retained earnings		
					General reserve	Retained earnings brought forward			
Balance at beginning of current period	13,616	20,005	20,005	3,404	50,000	(961)	52,442	(907)	85,157
Cumulative effect of changes in accounting policies									-
Restated balance reflecting changes in accounting policies	13,616	20,005	20,005	3,404	50,000	(961)	52,442	(907)	85,157
Changes of items during period									
Dividends of surplus						(4,399)	(4,399)		(4,399)
Reversal of general reserve					(5,000)	5,000	-		-
Net income						14,754	14,754		14,754
Purchase of treasury shares								(0)	(0)
Disposal of treasury shares						(3)	(3)	57	54
Retirement of treasury shares						-	-	-	-
Exercise of share acquisition rights						-	-	-	-
Net changes of items other than shareholders' equity									
Total changes of items during period	-	-	-	-	(5,000)	15,351	10,351	57	10,409
Balance at end of current period	13,616	20,005	20,005	3,404	45,000	14,389	62,793	(849)	95,566

	Valuation and translation adjustments			Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at beginning of current period	1,234	6	1,240	71	86,470
Cumulative effect of changes in accounting policies					-
Restated balance reflecting changes in accounting policies	1,234	6	1,240	71	86,470
Changes of items during period					
Dividends of surplus					(4,399)
Reversal of general reserve					-
Net income					14,754
Purchase of treasury shares					(0)
Disposal of treasury shares					54
Retirement of treasury shares					-
Exercise of share acquisition rights					-
Net changes of items other than shareholders' equity	3	(45)	(41)	(1)	(43)
Total changes of items during period	3	(45)	(41)	(1)	10,365
Balance at end of current period	1,238	(39)	1,199	69	96,835

**(Reference) Non-consolidated Statement of Changes in Equity**  
(April 1, 2021 - March 31, 2022)

(Millions of yen)

	Shareholders' equity								
	Capital stock	Capital surplus		Legal retained earnings	Retained earnings			Treasury shares	Total shareholders' equity
		Legal capital surplus	Total capital surpluses		Other retained earnings		Total retained earnings		
					General reserve	Retained earnings brought forward			
Balance at beginning of current period	13,616	20,005	20,005	3,404	50,000	7,601	61,005	(1,579)	93,047
Cumulative effect of changes in accounting policies						14	14		14
Restated balance reflecting changes in accounting policies	13,616	20,005	20,005	3,404	50,000	7,615	61,019	(1,579)	93,062
Changes of items during period									
Dividends of surplus						(3,828)	(3,828)		(3,828)
Reversal of general reserve					-	-	-		-
Net loss						(1,436)	(1,436)		(1,436)
Purchase of treasury shares								(2,688)	(2,688)
Disposal of treasury shares						(4)	(4)	48	43
Retirement of treasury shares						(3,308)	(3,308)	3,308	-
Exercise of share acquisition rights						0	0	4	4
Net changes of items other than shareholders' equity									
Total changes of items during period	-	-	-	-	-	(8,577)	(8,577)	672	(7,904)
Balance at end of current period	13,616	20,005	20,005	3,404	50,000	(961)	52,442	(907)	85,157

	Valuation and translation adjustments			Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at beginning of current period	1,820	0	1,820	76	94,944
Cumulative effect of changes in accounting policies					14
Restated balance reflecting changes in accounting policies	1,820	0	1,820	76	94,959
Changes of items during period					
Dividends of surplus					(3,828)
Reversal of general reserve					-
Net loss					(1,436)
Purchase of treasury shares					(2,688)
Disposal of treasury shares					43
Retirement of treasury shares					-
Exercise of share acquisition rights					4
Net changes of items other than shareholders' equity	(585)	5	(579)	(4)	(584)
Total changes of items during period	(585)	5	(579)	(4)	(8,489)
Balance at end of current period	1,234	6	1,240	71	86,470

(English Translation)

Accounting Auditor's audit report on the Consolidated Financial Statements

**Independent Auditor's Report**

May 12, 2023

To the Board of Directors  
Sangetsu Corporation

PricewaterhouseCoopers Aarata LLC  
Nagoya Office

Kosaku Kawahara, CPA  
Designated Limited Liability Partner,  
Engagement Partner  
Mami Kato, CPA  
Designated Limited Liability Partner,  
Engagement Partner

*Opinion*

Pursuant to Article 444, paragraph 4 of the Companies Act of Japan, we have audited the consolidated financial statements, that is, the consolidated balance sheet, consolidated statement of income, consolidated statement of changes in equity and notes to consolidated financial statements of Sangetsu Corporation (the "Company") for the fiscal term from April 1, 2022 to March 31, 2023.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position and financial performance of the corporate group, which consisted of the Company and its consolidated subsidiaries for the fiscal term of the consolidated financial statements, in accordance with accounting principles generally accepted in Japan.

*Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company and its consolidated subsidiaries in accordance with the regulations on professional ethics in Japan, and we have fulfilled our other ethical responsibilities as the auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Other Content*

Other content is the Business Report and its supplementary schedules. It is responsibility of management to prepare and present the other content. Moreover, the responsibility of the Audit and Supervisory Committee is to supervise the execution of duties of directors in maintaining and operating the reporting process of the other content.

The other content is not within the scope of our audit opinion on the consolidated financial statements. We do not state an opinion regarding the other content.

Our responsibility for auditing the consolidated financial statements is to read through the other content and consider whether there is any material discrepancy between the other content and the consolidated financial statements or the knowledge that we have acquired in the course of the audit. In addition, we are also responsible for paying attention with regard to any signs of other material misstatements outside of such material discrepancies.

We are required to report the fact if we judge there to be a material misstatement in the other content based on the work we carry out.

There were no items to be reported by us with regard to the other content.

*Responsibilities of Management and the Audit and Supervisory Committee for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing whether it is appropriate to prepare the consolidated financial statements on the going concern basis of accounting and

disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

The Audit and Supervisory Committee is responsible for overseeing the execution of duties by the Directors in designing and operating the financial reporting process.

#### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

Our responsibility is to express an opinion on the consolidated financial statements in our auditor's report from an independent standpoint based on our audit by obtaining reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate they could reasonably be expected to influence the decision-making of users of the consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we perform the following by exercising professional judgment and maintaining professional skepticism throughout the audit.

- We identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks. The procedures selected and applied depend on the auditors' judgment. Further, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- In making those risk assessments, we consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the internal control.
- We evaluate the appropriateness of accounting policies and their method of application adopted by management, as well as the reasonableness of accounting estimates made by management and adequacy of related disclosures.
- We conclude on the appropriateness of management's use of the going concern basis of accounting to prepare the consolidated financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the going concern basis of accounting. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the notes to consolidated financial statements or, if such disclosures are inadequate, to express a qualified opinion with an exceptive item on the consolidated financial statements. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause an entity to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the related disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- We obtain sufficient and appropriate audit evidence regarding the financial information of the Company and its consolidated subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit on the consolidated financial statements. We remain solely responsible for our audit opinion.

We communicate with the Audit and Supervisory Committee regarding the planned scope and timing of the audit, significant audit findings including any significant deficiencies in internal control that we identify during our audit, and any other matters required by the auditing standards.

We also provide the Audit and Supervisory Committee with a statement that we have complied with the regulations on professional ethics in Japan regarding independence, and to communicate with the Audit and Supervisory Committee all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards to eliminate or mitigate factors that may hinder our independence.

#### *Conflict of Interest*

We or the engagement partners have no interest in the Company and its consolidated subsidiaries which should be disclosed in accordance with the Certified Public Accountants Act.

- End of Report -

(English Translation)

Accounting Auditor's audit report on the Non-consolidated Financial Statements

**Independent Auditor's Report**

May 12, 2023

To the Board of Directors  
Sangetsu Corporation

PricewaterhouseCoopers Aarata LLC  
Nagoya Office

Kosaku Kawahara, CPA  
Designated Limited Liability Partner,  
Engagement Partner  
Mami Kato, CPA  
Designated Limited Liability Partner,  
Engagement Partner

*Opinion*

Pursuant to Article 436, paragraph 2, item 1 of the Companies Act of Japan, we have audited the non-consolidated financial statements, that is, the non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in equity and notes to non-consolidated financial statements, and the supplementary schedules (hereinafter, collectively, the "non-consolidated financial statements, etc.") of Sangetsu Corporation (the "Company") for the 71st fiscal term from April 1, 2022 to March 31, 2023.

In our opinion, the non-consolidated financial statements, etc. referred to above present fairly, in all material respects, the financial position and financial performance of the Company for the fiscal term of the non-consolidated financial statements, etc., in accordance with accounting principles generally accepted in Japan.

*Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Non-consolidated Financial Statements, etc.* section of our report. We are independent of the Company in accordance with the regulations on professional ethics in Japan, and we have fulfilled our other ethical responsibilities as the auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Other Content*

Other content is the Business Report and its supplementary schedules. It is responsibility of management to prepare and present the other content. Moreover, the responsibility of the Audit and Supervisory Committee is to supervise the execution of duties of directors in maintaining and operating the reporting process of the other content.

The other content is not within the scope of our audit opinion on the non-consolidated financial statements, etc. We do not state an opinion regarding the other content.

Our responsibility for auditing the non-consolidated financial statements, etc. is to read through the other content and consider whether there is any material discrepancy between the other content and the non-consolidated financial statements, etc. or the knowledge that we have acquired in the course of the audit. In addition, we are also responsible for paying attention with regard to any signs of other material misstatements outside of such material discrepancies.

We are required to report the fact if we judge there to be a material misstatement in the other content based on the work we carry out.

There were no items to be reported by us with regard to the other content.

*Responsibilities of Management and the Audit and Supervisory Committee for the Non-consolidated Financial Statements, etc.*

Management is responsible for the preparation and fair presentation of the non-consolidated financial statements, etc. in accordance with accounting principles generally accepted in Japan, and for designing and

operating such internal control as management determines is necessary to enable the preparation and fair presentation of the non-consolidated financial statements, etc. that are free from material misstatement, whether due to fraud or error.

In preparing the non-consolidated financial statements, etc., management is responsible for assessing whether it is appropriate to prepare the non-consolidated financial statements, etc. on the going concern basis of accounting and disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

The Audit and Supervisory Committee is responsible for overseeing the execution of duties by the Directors in designing and operating the financial reporting process.

#### *Auditors' Responsibilities for the Audit of the Non-consolidated Financial Statements, etc.*

Our responsibility is to express an opinion on the non-consolidated financial statements, etc. in our auditor's report from an independent standpoint based on our audit by obtaining reasonable assurance about whether the non-consolidated financial statements, etc. as a whole are free from material misstatement, whether due to fraud or error. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate they could reasonably be expected to influence the decision-making of users of the non-consolidated financial statements, etc.

As part of an audit in accordance with auditing standards generally accepted in Japan, we perform the following by exercising professional judgment and maintaining professional skepticism throughout the audit.

- We identify and assess the risks of material misstatement of the non-consolidated financial statements, etc. whether due to fraud or error, and then design and perform audit procedures responsive to those risks. The procedures selected and applied depend on the auditors' judgment. Further, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- In making those risk assessments, we consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the purpose of the audit of the non-consolidated financial statements, etc. is not expressing an opinion on the effectiveness of the internal control.
- We evaluate the appropriateness of accounting policies and their method of application adopted by management, as well as the reasonableness of accounting estimates made by management and adequacy of related disclosures.
- We conclude on the appropriateness of management's use of the going concern basis of accounting to prepare the non-consolidated financial statements, etc. and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the going concern basis of accounting. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the notes to non-consolidated financial statements, etc. or, if such disclosures are inadequate, to express a qualified opinion with an exceptive item on the non-consolidated financial statements, etc. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause an entity to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the non-consolidated financial statements, etc., including the related disclosures, and whether the non-consolidated financial statements, etc. represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.

We communicate with the Audit and Supervisory Committee regarding the planned scope and timing of the audit, significant audit findings including any significant deficiencies in internal control that we identify during our audit, and any other matters required by the auditing standards.

We also provide the Audit and Supervisory Committee with a statement that we have complied with the regulations on professional ethics in Japan regarding independence, and to communicate with the Audit and Supervisory Committee all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards to eliminate or mitigate factors that may hinder our independence.

#### *Conflict of Interest*

We or the engagement partners have no interest in the Company which should be disclosed in accordance with the Certified Public Accountants Act.

- End of Report -

(English Translation)

The Audit and Supervisory Committee's audit report

### **Audit Report**

The Audit and Supervisory Committee has audited the execution of duties by Directors for the 71st fiscal term from April 1, 2022 to March 31, 2023. The Committee hereby reports the method and result thereof as follows:

#### 1. Summary of Auditing Methods

Regarding the content of the resolution of the Board of Directors relating to matters stipulated in Article 399-13, paragraph 1, item 1 (b) and (c) of the Companies Act of Japan and the status of the system being developed pursuant to such resolutions (internal control system), the Audit and Supervisory Committee periodically received reports from the Directors, employees and other personnel concerning the establishment and operation of such system, sought explanations as necessary, and expressed opinions. In addition, the Committee Members carried out audits according to the following method:

1) In accordance with the auditing standards for Audit and Supervisory Committee determined by the Audit and Supervisory Committee, and in compliance with auditing policies and the division of duties, while utilizing methods that used telephone lines, the Internet, etc., each Audit and Supervisory Committee Member worked in coordination with the internal audit division and attended the important meetings to receive reports regarding execution of duties from the Directors, Executive Officers, and employees, and requested explanations as necessary. Each Audit and Supervisory Committee Member also inspected the approved documents and examined the status of operations and conditions of assets at the head office, principal branches, and sales offices. Audit and Supervisory Committee Members communicated and shared information with the directors and auditors, etc. of the subsidiaries and received from the subsidiaries their business reports as necessary.

2) Audit and Supervisory Committee Members monitored and verified that the Accounting Auditor maintains independence and conduct the audits appropriately. Each Audit and Supervisory Committee Member also received reports on the status of the execution of duties from Accounting Auditor and requested explanations as necessary. In addition, we were informed of the arrangement of the "System for ensuring that the duties are performed appropriately" (matters stipulated in the items of Article 131 of the Regulation on Corporate Accounting in accordance with "Standards for the Quality Control of Audits" (Business Accounting Council, October 28, 2005)) from the Accounting Auditor and requested explanations as necessary. Furthermore, we also consulted with PricewaterhouseCoopers Aarata LLC regarding key matters to be considered in audits, received reports from PricewaterhouseCoopers Aarata LLC on the status of their audit, and requested explanations as necessary.

In accordance with the procedures mentioned above, we reviewed the Business Report and the supplementary schedules thereto, the non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in equity and notes to non-consolidated financial statements) and the supplementary schedules thereto, and the consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statement of changes in equity and notes to consolidated financial statements) for the fiscal term ended March 31, 2023.



## 2. Results of Audit

### (1) Results of Audit of Business Report and Other Relevant Documents

- 1) The business report and supplementary schedules present fairly the financial condition of the Company in conformity with related laws and regulations and the Articles of Incorporation of the Company.
- 2) Regarding the execution of duties by Directors, there were no instances of misconduct or material matters in violation of laws and regulations, nor of the Articles of Incorporation of the Company.
- 3) The resolution of the Board of Directors regarding the internal control system is fair and reasonable. As for the construction and operation of this internal control system, improvements continue to be made, and there are no matters requiring additional comment regarding the contents of the business report on such internal control system and the execution of duties by Directors.

### (2) Results of Audit of Non-consolidated Financial Statements and Supplementary Schedules

The auditing methods and results of the Accounting Auditor, PricewaterhouseCoopers Aarata LLC, are fair and reasonable.

### (3) Results of Audit of Consolidated Financial Statements

The auditing methods and results of the Accounting Auditor, PricewaterhouseCoopers Aarata LLC, are fair and reasonable.

May 12, 2023

Audit and Supervisory Committee, Sangetsu Corporation

Audit and Supervisory Committee Member	Masatoshi Hatori
Audit and Supervisory Committee Member	Michiyo Hamada
Audit and Supervisory Committee Member	Kenichi Udagawa
Audit and Supervisory Committee Member	Osamu Terada
Audit and Supervisory Committee Member (full-time)	Shuji Sasaki

(Note) Audit and Supervisory Committee Members Masatoshi Hatori, Michiyo Hamada, Kenichi Udagawa, and Osamu Terada are Outside Directors under the provisions of item 15 of Article 2 and paragraph 6 of Article 331 of the Companies Act of Japan.