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Sangetsu Corporation

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<https://www.sangetsu.co.jp/>

The situation of the corporate governance at the Company is as described below.

I. The Basic Policy for Corporate Governance, Capital Structure, Attributes, and Other Basic Information

1. Basic Policy

The Company aims to foster good relationships with all stakeholders in order to improve the corporate value, and keep growing.

The Company recognizes that the management mission for achieving the aim is to tighten corporate governance based on the transparency, swiftness, and efficiency of business administration.

The Company adopted a corporate structure with an Audit and Supervisory Committee inviting Outside Directors, for the purpose of strengthening the audit and supervisory functions of the Board of Directors.

With this governance structure, the Company is making efforts to improve the corporate value further.

[Reasons for Non-compliance with the Principles of the Corporate Governance Code]

The Company follows all of the principles of the Corporate Governance Code.

[Disclosure Based on the Principles of the Corporate Governance Code] Updated

[Principle 1-4 The So-Called Strategically Held Shares]

1. Strategic shareholding policy and items to be examined for determining whether or not to hold specific shares

The Company determines shares that will hold strategically in the medium or long term, while comprehensively considering whether the Company should cement relationships with issuing companies as the business strategy or as business partners.

Every year, the Company checks the costs and return of shareholding, and if the Company judges that it has become no longer meaningful to hold shares in the medium or long term, the Company will sell the shares. The Company manages shares based on this policy. The results of discussions by the Board of Directors and stocks the Company decided to keep holding are disclosed in “Situation of shareholding” in the Annual Securities Report.

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2. Policy for exercising voting rights

While respecting the management policy of each issuing company, the Company conducts dialogue and communication with them through various channels, comprehensively consider the medium/long-term improvement in their corporate value, their stance for returning profits to shareholders, corporate governance, CSR activities, etc., and examine whether each proposal is consistent with the purpose of the shareholding and would lead to the improvement in value of the company, to vote for or against the proposal.

[Principle 1-7 Transactions Between Related Parties]

If the Company and any Director make a transaction or if any Director makes a transaction with the Company for a third party, the Company will submit its plan to the Board of Directors in advance and the Board of Directors will deliberate it to a sufficient degree and make a decision in accordance with the Companies Act and the regulations for the Board of Directors.

Important transactions and irregular transactions, with subsidiaries, major shareholders, or other related parties, excluding Directors, too, will be submitted to the Board of Directors in advance and deliberated to a sufficient degree, for making a decision.

[Principle 2-4 Ensuring Diversity, Including Promotion of Active Participation of Women, in the Company]

Supplementary Principle 2-4 (i) Ensuring Diversity in Promotion to Core Human Resource

(1) Approach to ensure diversity

Pursuing the Sangetsu Group Human Rights Policy and the Sangetsu Group's Basic Policy for Diversity, the Company promotes the fostering of a culture and enrichment of a system for continuing to endeavor and innovate by utilizing each employee's individuality as diversity, regardless of gender, age, nationality, race, religion, disability, gender identity, sexual orientation, etc.

(2) Voluntary and measurable goals for ensuring diversity and current progress of ensuring diversity

- Promotion of women to managerial positions

The percentage of female full-time employees in the Company is 37.4%, and this percentage has been increasing year by year as a result of development of a comfortable working environment regardless of gender, including the enhancement of work-life balance support system. In addition, female employees account for 42.1% of employees in leadership positions (section chief class) and 18.3% of employees in managerial positions (expected to exceed 20% at the time of organizational restructuring in July 2023). The Company has set a goal of increasing the ratio of female managers to 25% by 2026, and the percentage of women in management positions since fiscal year 2017 has been disclosed on the Company's website.

(https://www.sangetsu.co.jp/company/sustainability/social/divercity_policy.html)

In order to support the empowerment of women, the Company provides career development support, skill improvement training for female employees and supervisors, and health seminars to support the active participation of women.

- Promotion of mid-career hires to managerial positions

The Company has been actively recruiting mid-career hires since 2016 in order to secure experts in fields such as

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management personnel, information systems, designers, etc. Out of 10 Executive Officers, 5 are mid-career hires, accounting for 50% of the total number of Executive Officers. The Company actively promotes mid-career recruitment as well as in-house training for specialized and professional human resources. The Company hires several people for managerial positions every year, and fairly promotes non-management hires to management positions in the same manner as other full-time employees. In order to retain mid-career hires and have them play an active role in the Company, the Company provides post-employment training and other programs.

- Promotion of foreign nationals to managerial positions

Although Sangetsu alone mainly targets the Japanese market, the Sangetsu group began to hire foreign nationals in 2015 when it started to expand its overseas business. These human resources will be promoted equally to management positions on the basis of competence and business performance, regardless of nationality. In the group companies engaging in overseas business, foreign nationals account for approximately 60% of the employees in executive positions that play a central role in the business.

(3) Policies on human resources development and internal environment development for ensuring diversity and their progress

The Company considers diversity management, which connects new perspectives and ideas brought by different backgrounds, sensibilities, and values to enrich creativity, as the core of business management and is working on it as an important policy to achieve business growth while meeting the demand in a diversifying market. The Company's diversity and inclusion goals include actively hiring foreign employees, increasing the employment of people with disabilities, and supporting the promotion of female employees to managerial positions. Other initiatives include increasing the ratio of employees who have taken paid leave, reducing long working hours, and LGBTQ-related initiatives.

[Principle 2-6 Exertion of Functions as Asset Owners for Corporate Pension Funds]

The Company assigns appropriate individuals to manage the corporate pension funds. In addition, given that the management of corporate pension funds impacts the financial position of the Company as well as stable asset formation for employees, the Company will take appropriate measures to fulfill its role as an asset owner.

[Principle 3-1 Full Disclosure]

(1) The Company's objectives (e.g., business principles), business strategies and business plans

The Company has established the Sangetsu brand philosophy with Joy of Design as its brand statement, based on the idea of contributing to society and the creation of a rich lifestyle culture through interiors and exteriors. In terms of business strategies and plans, the Company has formulated and disclosed the Sangetsu Group's Long-term Vision (DESIGN 2030) and the Medium-term Business Plan (BX 2025) for the period from 2023 to 2025, with the aim of implementing reforms and achieving sustainable growth based on a clearly defined long-term vision.

(2) Basic concept and policy on corporate governance

As described in "1. Basic Policy" above.

(3) Policies and procedures for determining the remuneration of each Director

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Compensation for Executive Officers and Directors who concurrently serve as Executive Officers of the Company consists of three components: basic remuneration, which is a fixed remuneration; performance-based remuneration, which is determined based on the previous year's performance; and restricted stock compensation, which was resolved at the Ordinary General Meeting of Shareholders held on June 23, 2017. The purpose of performance-based remuneration is to increase awareness of the need to contribute to improving business performance, and the calculation method is disclosed in the Annual Securities Reports. Restricted stock compensation is intended to further the sharing of value with shareholders and clarify incentives for the continuous improvement of corporate value. The ratios of performance-based remuneration and restricted stock compensation are set to increase as the rank rises. The system was adopted in fiscal 2017 and was partially revised in fiscal 2020 to align with the Medium-term Business Plan [D.C. 2022] for the period from 2020 to 2022, with the aim of being more closely linked to business performance and share value.

The amount of remuneration paid to Directors who concurrently serve as Executive Officers is determined by the Board of Directors after deliberation by the Nomination and Remuneration Committee, which consists of all Outside Directors who are Audit and Supervisory Committee Members, and is periodically monitored by submitting a remuneration proposal to the Nomination and Remuneration Committee each year within the limit of the total amount of remuneration paid to Directors who concurrently serve as Executive Officers, as determined by resolution of the General Meeting of Shareholders.

Directors who serve as members of the Audit and Supervisory Committee receive only the basic remuneration that is not linked to performance and is determined by discussion among Directors who are members of the Audit and Supervisory Committee within the limit of the total amount of remuneration for Directors who are members of the Audit and Supervisory Committee resolved at the General Meeting of Shareholders.

The details of the remuneration system for Executive Officers and Directors who concurrently serve as Executive Officers are explained in an easy-to-understand manner in the Annual Securities Report using graphs and tables and can be found on the Company's website. (https://www.sangetsu.co.jp/company/ir/library/securities_report.html)

(4) Policies and procedures for the appointment and dismissal of Director candidates

In order to ensure appropriate decision-making and management supervision by the Board of Directors, the Company appoints several Directors with expertise in diverse fields such as business, legal affairs, accounting, and public administration, taking into consideration their achievements, extensive experience, and deep insight into the Company or other companies.

With regard to the procedures for appointing and dismissing Director candidates, the Nomination and Remuneration Committee, which is chaired by an Outside Director and consists of all Outside Directors, who are members of the Audit and Supervisory Committee, and the President & CEO and Executive Officer, deliberates on the candidates recommended by the President & CEO and Executive Officer and proposes candidates to the Board of Directors.

(5) Explanation of appointments, dismissals, and nominations of Directors

When appointing or nominating candidates for Director, a brief biography of each Director is provided on pages 8-14 of the "Convocation Notice of the Ordinary General Meeting of Shareholders". Each time there is a proposal for the appointment of Directors, including Outside Directors, at the General Meeting of Shareholders, the reasons for individual appointments are stated in the "Convocation Notice of the Ordinary General Meeting of Shareholders." Please refer to the Company's

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website at https://www.sangetsu.co.jp/company/ir/share_info/meeting.html. Information will also be disclosed as necessary in the event of the dismissal of a Director.

Supplementary Principle 3 -1 (ii) Disclosure in English

The Company discloses in English the following documents: Convocation Notices, Financial Summary Reports, Supplementary Materials for Financial Results, Presentation Materials for Financial Results Briefing, Integrated Reports, Medium-term Business Plans, Long-term Visions, Bridge Reports, Website (excerpts), and Timely Disclosure (some parts). In the fiscal year ended March 2022, the Company started English disclosure of supplementary explanation materials for financial results and timely disclosure of revisions to earnings forecasts and dividend forecasts and simultaneous disclosure of Financial Summary Reports in both Japanese and English. In February 2022, the English website was updated to provide more corporate information, investor relations information, and sustainability disclosure in English. Please visit the Company website at <https://www.sangetsu.co.jp/english/>. The Company plans to gradually expand the scope of disclosure of this and other information in English.

Supplementary Principle 3-1-(iii)

- Initiatives for sustainability

In the Long-term Vision “DESIGN 2030,” the Company selected 10 goals from 17 SDGs as the goals of the corporate group. In the Medium-term Business Plan “BX 2025,” the Company set quantitative goals regarding social value as a basic policy. Concrete measures are (1) to set concrete numerical goals for reducing environmental burdens, (2) to facilitate the grasping of environmental burdens in the supply chain (The Company plans to set criteria for evaluating procurement activities), (3) to develop long-life products with high durability and products with low environmental burdens, and (4) to recycle sample books. For (4), the Company established Sangetsu Sample Book Recycle Center in March 2021, and started operations.

- Investment in human capital

The Company respects the diversity, personality, and individuality of employees, aims to operate personnel systems in which individual employees can exert their abilities to the maximum degree as main players, and discloses the systems in the website.

(https://www.sangetsu.co.jp/company/sustainability/social/divercity_policy.html)

The investment in human capital includes the training of employees, the development of their skills, the enhancement of their engagement, and the establishment of a comfortable working environment. The Company engages in all of them in a proactive manner. Regarding the training of employees and the development of their skills, the Company plans to link them with the newly adopted personnel system, and increase the investment in education and reskilling for improving expertise while pursuing cost-effectiveness. Details are disclosed in the website. Please refer to it (<https://www.sangetsu.co.jp/company/ir/>).

Furthermore, the Company upholds the policy for health-oriented business administration: “so that employees can work lively and lead a life in good health.” The Company makes efforts to secure a safe, healthy, and comfortable workplace environment where employees can work vigorously, enrich the system for enhancing mental and physical health, and

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maintain and enhance health. These activities are disclosed in the website.

(https://www.sangetsu.co.jp/company/sustainability/social/health_management.html)

- Investment in intellectual property

In the Long-term Vision “DESIGN 2030,” the Company aims to improve the brand value with designs and transform the business, and focuses on design in business administration. In order to realize design-oriented management, the Company established a design strategy division, and strive to improve the brand value by recruiting and training more designers to strengthen the capability of proposing product and space designs and creating and protecting intellectual property rights, especially trademarks and designs. If employees invent something through their work, the Company will pay appropriate rewards to them in accordance with the in-company regulations for employees’ invention, to promote the creation of intellectual property.

- Impact of climate change on business activities

Risks of climate change are mentioned in the Annual Securities Report issued in June 2023. Regarding the conservation of the earth environment, the environmental burdens produced by business activities are summarized on pages 44 to 47 of the Integrated Report. The Integrated Report describes only the measures for reducing environmental burdens in business activities and the entire supply chain.

The website describes “the policy and important issues regarding climate change” with many graphs and tables.”

(<https://www.sangetsu.co.jp/company/sustainability/environment/climatechange.html>) In addition, the Company agrees with the TCFD, and disclosed 4 elements (Strategy, Governance, Risk Management, Metrics and Targets) in the website as recommended by TCFD as a whole. The risk management is described in “Risks and opportunities arising out of climate change” in the website with tables. (<https://www.sangetsu.co.jp/company/sustainability/environment/risk.html>) In addition, the Company established “Climate Change Risk Subcommittee” in the Risk Management Committee chaired by the President & CEO in FY 2022, and have been implementing measures and monitoring risks with a more systematic risk management structure and reviewing and rediscussing the identification of risks and opportunities and measures for them. The Company is establishing systems for scenario analysis and preparing for disclosure. The Company will strive to further improve quality and quantity.

[Principle 3-2 External Accounting Auditors]

Supplementary Principle 3-2-(i) Formulation of Standards for Evaluating External Accounting Auditors

The Audit and Supervisory Committee formulates and applies the standards for appointing, dismissing, reappointing, and evaluating external accounting auditors. Its purpose is to secure and maintain appropriate external audits by properly evaluating and appointing external accounting auditors, who need to be highly independent. These standards stipulate that the term of an external accounting auditor shall be up to 10 years, in principle.

[Principle 4-1 Roles and Duties of the Board of Directors (1)]

Supplementary Principle 4-1-(i) Determination by the Board of Directors and Delegation to the Management

As the Company adopted a structure with an Audit and Supervisory Committee, the Company decided to transfer some

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authorities from the Board of Directors to the Representative Director for making decisions about management swiftly. The Board of Directors specified concrete authorities to be delegated to the Representative Director, delegated them, and is monitoring the situation.

Supplementary Principle 4-1-(ii) Disclosure of Medium-term Business Plans

The Company recognizes that the completion of Medium-term Business Plans is one of the important commitments for shareholders. The progress of each plan is examined and confirmed, and then disclosed in reference materials for explaining financial results. At the end of each fiscal year, the differences between forecasts and results are analyzed, explained at sessions for briefing financial results, etc., and disclosed in the website and the Integrated Report. For the next term, the Company will discuss a plan for completing the strategies set in the Long-term Vision “DESIGN 2030” and realizing the vision, based on the results of the above analysis.

Supplementary Principle 4-1-(iii) Plans for Successors as Chief Executive Officer (CEO) and Others

Supplementary Principle 4-3-(ii) Appointment and Dismissal of the CEO

In the Company, the Nomination and Remuneration Committee, which consists of all Outside Directors, who are members of the Audit and Supervisory Committee, and the President & CEO and Executive Officer and chaired by an Outside Director, oversees the plans for training successors as CEO and others and their progress while considering the management ethos and concrete management strategies, and holds discussions while considering personality, popularity, insight, business execution skills, managerial perspective, willingness to engage in business administration, etc.

When nominating managers and Executive Officers, the Nomination and Remuneration Committee deliberates the plans for successors as Chief Executive Officer (CEO) and others (including succession plans, required qualities, and steps for selecting candidates), the background for selecting a successor as CEO, a proposal for dismissal of the CEO, the background for proposing the dismissal of the CEO, etc., and gives explanations or proposals to the Board of Directors if necessary.

Regarding plans for training successors, the Company will keep considering the following items as important themes.

- Discussion on a medium/long-term succession plan for the CEO
- Review/revision of requirements for becoming CEO
- Discussion on candidates for Executive Officers and managers from the medium/long term
- Diversification of opportunities to check the progress of development of successors in a certain timeline

For training candidates, the Company utilizes in-company selection systems, including the training for developing leaders and senior managers (candidates for Executive Officers) as a promising human resource pool, and Outside Directors participate in not only meetings of the Board of Directors, but also other important meetings, such as those for business strategies and discussing business issues, and interview employees, such as department heads, division chiefs, and branch Directors, about future business administration, to directly grasp the personalities and ways of thinking of candidates for Executive Officers and Managers. The Nomination and Remuneration Committee refers to the results of these activities in their discussions.

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[Principle 4-2 Roles and Duties of the Board of Directors (2)]

Supplementary Principle 4-2 (i) Design of Remuneration Systems for the Management Team

The maximum amount of total remuneration for all Directors is determined by a resolution passed at a Shareholders' General Meeting.

The Company's remuneration consists of base remuneration, performance-linked remuneration, and restricted stock compensation, and only base remuneration is paid to Directors who do not concurrently serve as Executive Officers and Directors who are members of the Audit and Supervisory Committee. The base remuneration for Executive Officers as well as Directors who concurrently serve as Executive Officers is calculated by the Nomination and Remuneration Committee, which evaluates each individual's contribution to the Company's business for the relevant fiscal year. It determines a contribution evaluation index ranging from 0.85 to 1.25 and uses this index to calculate the base remuneration.

Performance-linked remuneration is paid with the aim of realizing improvement in capital efficiency on a single-year basis, using consolidated net income (ROE), an index for improvement in business earnings and capital efficiency, as the linking index. The Company determines the number of shares applicable to the current Medium-term Business Plan period and pays these as restricted stock compensation, with the aim of promoting value sharing with shareholders and clarifying incentives to continuously improve corporate value. The multiplier for each post is designed so that the ratio of performance-linked remuneration and restricted stock compensation increases as one's position in the Company increases.

The above remuneration system is described in the "Annual Securities Report." Please refer to the Company's website (https://www.sangetsu.co.jp/company/ir/library/securities_report.html) for details.

[Principle 4-7 Roles and Duties of Independent Outside Directors]

Based on their expertise and wealth of experience, the Company's Independent Outside Directors provide useful advice to improve the Company's corporate value over the medium to long term, as well as provide appropriate deliberation and supervision from an independent and objective standpoint by serving as chairperson and members of the Nomination and Remuneration Committee, which is an internal organization of the Board of Directors.

The activities of the Independent Outside Directors are described on page 43 of the "Convocation Notice of the Ordinary General Meeting of Shareholders" and in the "Integrated Report." Please refer to the Company's website

(https://www.sangetsu.co.jp/company/ir/share_info/meeting.html / <https://www.sangetsu.co.jp/company/ir/library/report.html>) for details.

[Principle 4-8 Effective Use of Independent Outside Directors]

The Company adopted a corporate structure with an Audit and Supervisory Committee in order to effectively utilize Independent Outside Directors, who are rare human resources. By establishing an Audit and Supervisory Committee, the Company aims to increase the ratio of Independent Outside Directors on the Board of Directors by assembling them and making them members of the Board of Directors, thereby further improving management transparency and stimulating management discussions based on shareholders' perspectives. Currently, out of the 7 Directors, 4 are Independent Outside Directors, making the ratio of Outside Directors exceed 50%.

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[Principle 4-9 Criteria for Determining the Independence of Independent Outside Directors and their Qualities]

In addition to the requirements for "being outside" and "being independent" stipulated by the Companies Act and the stock exchanges in which the Company is listed, the Company puts importance on a high level of expertise and a wealth of experience to provide candid and constructive advice on the Company's management.

The Company has established the following criteria for independence of Outside Directors.

(1) A person who does not fall under any of the following as of the date of issuance of this document

1. A shareholder who owns 5% or more of the voting rights of the Company or an executive thereof
2. An executive of a business partner whose transactions with the Company account for 2% or more of the Company's consolidated net sales or a subsidiary thereof
3. An executive of a major lender of the Company (a lender whose loans receivable from the corporate group account for 2% or more of the Company's consolidated total assets as of the end of the most recent fiscal year).
4. A certified public accountant who is also the Company's accounting auditor
5. A consultant, an accounting expert, or a legal expert who receives monetary or other financial benefits of 10 million yen or more per year from the Company in addition to a Director's remuneration

(If the entity receiving such financial benefits is a corporation or an organization, then any person who belongs to such a corporation or organization)

6. An executive of an organization that receives one million yen or over per year as donations from the Company
7. A relative within the second degree of kinship of any of the above 1 to 6.

(2) A person who has not fallen under any of the above categories 1 through 7 at any point during the past three years.

[Principle 4-10 Use of Voluntary Systems]

Supplementary Principle 4-10 (i) Policy, Authority, Roles, etc. Regarding the Independence of the Committee Structure

The Nomination and Remuneration Committee was established in FY 2015 as a voluntary committee equivalent to the Nomination Committee and the Remuneration Committee to ensure transparency and objectivity in the personnel affairs and remuneration of Executive Officers. The committee consists of all Outside Directors, who are members of the Audit and Supervisory Committee, and the President & CEO and Executive Officer, and deliberates on the members of the Board of Directors for the next term, performance evaluation of Directors who concurrently serve as Executive Officers, the personnel affairs and evaluation of the senior management, as well as the nature of the remuneration system for Executive Officers and the appropriateness of remuneration.

Ms. Michiyo Hamada, an Audit and Supervisory Committee member, who is also an Outside Director, was appointed as chairperson of the Nomination and Remuneration Committee to ensure its independence.

[Principle 4-11 Prerequisites for Ensuring the Effectiveness of the Board of Directors]

Supplementary Principle 4-11 (i) Diversity, Size and the Balance of Knowledge, Experience, and Abilities of the Board of Directors

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The Company has appointed two Directors who concurrently serve as Executive Officers and five members of the Audit and Supervisory Committee, to improve the supervisory function and strengthen the governance structure of the Board of Directors. The Company intends to diversify the Board of Directors by selecting Outside Directors from leading experts in diverse fields such as business, legal affairs, and accounting. The Company has appointed two Directors and one Outside Director who concurrently serve as Executive Officers and have experience working overseas, as well as three Outside Directors who have served as Representative Directors at other companies. In addition, one female Outside Director has also been appointed. The Company intends to further promote the appointment of women from both inside and outside the Company in order to promote diversity. The skills matrix for the above is shown on pages 16-17 of the "Convocation Notice of the Ordinary General Meeting of Shareholders." Please refer to the Company's website (https://www.sangetsu.co.jp/company/ir/share_info/meeting.html) for details.

Supplementary Principle 4-11 (ii) Directors' Concurrent Positions as Executives of Other Listed Companies

The status of Directors with concurrent positions as executives at other companies is as follows, all of which are judged to be reasonable in terms of the scope of their concurrent positions.

Ms. Michiyo Hamada, Director: Outside Director at TOHO GAS Co., Ltd., Outside Director at Aisin Corporation (formerly AISIN SEIKI Co., Ltd.)

Supplementary Principle 4-11 (iii) Evaluating the Effectiveness of the Board of Directors

The Board of Directors is composed of seven Directors, two of whom concurrently serve as Executive Officers and five of whom are members of the Audit and Supervisory Committee. Four of the five Audit and Supervisory Committee Members are Outside Directors to ensure the effectiveness of the Board of Directors in making decisions, supervising business operations, and managing meetings.

In principle, the Board of Directors meets once a month to deliberate and resolve important issues in a timely manner.

Materials are distributed in advance or distributed as data, and at the Audit and Supervisory Committee meetings, full-time Audit and Supervisory Committee Member explain each agenda item of the Board of Directors meetings to the Audit and Supervisory Committee Members, who also serve as Outside Directors, in advance in order to facilitate active discussions.

The Board of Directors ensures sufficient time for deliberation, and the Outside Directors, who have a wealth of knowledge and experience, examine management issues from a variety of perspectives. The opinions and requests of the Outside Directors are also reflected in the Board of Directors' method of operation to improve its effectiveness.

Self-evaluation of the Board of Directors is conducted every year, and the self-evaluation for 2022 (January to December) was conducted in May 2023. Based on the results of the effectiveness evaluation, the Company will strive to further improve the effectiveness of the Board of Directors.

[Principle 4-14 Training of Directors]

Supplementary Principle 4-14 (2)

To promote compliance-oriented management, the Company provides opportunities for Directors and the senior

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management to participate in internal and external training programs. The Company bears the costs of participation in training sessions sponsored by third-party organizations.

In addition to opportunities to attend the Board of Directors and the Audit and Supervisory Committee meetings, the Company provides opportunities for Independent Outside Directors to attend orientation sessions upon assuming office, participate in on-site inspections of branches and subsidiaries, and engage in dialogue with the management and executives, in order to enhance their awareness of the status of business execution.

[Principle 5-1 Policy for Constructive Dialogue with Shareholders]

- The President & CEO manages the IR activities, and also works for IR interviews and results briefing sessions. The President & CEO gives direct explanations to overseas investors and makes other efforts, to actively interact with investors. In addition, the President & CEO regularly holds meetings with the Audit and Supervisory Committee Members, including all Outside Directors, and institutional investors.
- In order to proceed with dialogue with shareholders reasonably and carry out IR activities swiftly, the Company established Public & Investor Relations Section in General Affairs Department.
- For dialogue with domestic and overseas institutional investors and analysts, the President & CEO and Executive Officer, Executives in charge, and Public & Investor Relations Section in General Affairs Department meet with them when requested.
- Public & Investor Relations Section is in charge of IR activities, but Divisions, General Accounting Department, Management Planning Section in President's Office, etc. cooperate with one another, to offer information in a more effective manner.
- In addition to the announcement of financial results, the Company holds events, including sessions for briefing financial results and management strategies and tours in logistics centers for institutional investors, and participates in IR events for individual investors organized by stock exchanges, writes articles for stock information magazines, and enriches the website to actively disclose information to individual investors.
- Since 2017, the Company has been holding a company briefing session for shareholders at Shinagawa Showroom of the Company, mainly for individual shareholders in the Kanto region. All Directors participate in this session, and the President & CEO gives an explanation on the Company. (It was not held from FY 2020 to FY 2022, to prevent the spread of COVID-19.)
- The reference material for briefing used in each event and the scenes of dialogue are disclosed in the website, and the English versions, too, are disclosed when necessary.
- An Integrated Report is produced in each fiscal year, and the Japanese and English versions are disclosed in the website (<https://www.sangetsu.co.jp/company/ir/library/report.html>).
- The Company discloses the contents of direct dialogue, reference material on the website, and videos of results briefing sessions and general meetings of shareholders, so that shareholders can understand the management strategies, business environment, business progress, financial information, etc. more deeply.
- The opinions of shareholders and investors obtained through dialogue are referred to by Public & Investor Relations

コーポレートガバナンス

CORPORATE GOVERNANCE

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Section for improving the business administration. In addition, they are shared by division chiefs on a quarterly basis, to enrich information disclosure and improve corporate value.

- The Company appropriately handles insider information, by managing undisclosed important facts rigorously, in accordance with the regulations for preventing insider trading.

[Principle 5-2 Formulation and Announcement of Management Strategies and Plans]

[Action to Implement Management that is Conscious of Cost of Capital and Stock Price]

The measures for realizing business administration focused on capital costs and stock price were disclosed in the Medium-term Business Plan “BX2025” announced in May 2023.

Please refer to the website (<https://www.sangetsu.co.jp/information/pdf/20230524125206.pdf>).

- The Company recognizes that Cost of shareholders' equity: 5.61% and WACC: 5.31% (as of March 2023).
- The Company aims to achieve an ROE of 14% and an ROIC of 14%, in order to realize capital profitability exceeding capital cost.
- For the plan for distributing funds in the 3-year Medium-term Business Plan, the Company discloses the plans for procuring and allocating funds, while clarifying funds allocation plans, including investment for growth, return to shareholders and holding cash equivalents at the end of March 2026.

2. Capital Composition

Ratio of shareholding by foreign investors	10% or higher and lower than 20%
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[Major shareholders]

Name	No. of shares held	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. (standing proxy: Custody Bank of Japan, Ltd.)	2,064,372	3.51
Tomohiro Yoshida	1,764,800	3.00
Touzou Hibi	1,708,588	2.97
Yoshio Hibi	1,743,492	2.91
Masae Miwa	1,699,228	2.89
MUFG Bank, Ltd.	1,666,200	2.83
Sangetsu Kyo-ei-kai	1,630,280	2.77
Sumitomo Realty & Development Co., Ltd.	1,170,000	1.99

Existence of a controlling shareholder (excluding the parent company)	-----
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コーポレートガバナンス

CORPORATE GOVERNANCE

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Existence of the parent company	None
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Supplementary explanation

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3. Corporate Attributes

Stock Exchange and Market Section	Prime Market of Tokyo Stock Exchange and Premier Market of Nagoya Stock Exchange
Account closing month	March
Business category	Wholesale
Number of employees (consolidated) as of the end of the latest fiscal year	Over 1000
Consolidated sales in the latest fiscal year	100 billion yen or more and less than 1 trillion yen
Number of consolidated subsidiaries as of the end of the latest fiscal year	10 to 49

4. Guidelines for Measures for Protecting Minority Shareholders During Transactions with Controlling Shareholders

5. Special Circumstances That Could Affect the Corporate Governance Seriously

II. Situation of a Business Administration Organization for Making Managerial Decisions, Executing and Overseeing Business and Other Corporate Governance Structures

1. Items Regarding the Composition of the Organization, Organizational Operation, Etc.

Organizational form	Company with an Audit and Supervisory Committee
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[Information on Directors]

Maximum number of Directors specified in the Articles of Incorporation	12
Term of office of a Director specified in the Articles of Incorporation	1 year
Chair of the Board of Directors	President & CEO
Number of Directors	7

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CORPORATE GOVERNANCE

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Appointment of Outside Directors	Appointed
Number of Outside Directors	4
Number of Outside Directors designated as Independent Executives	4

Relationship with the company (1)

Name	Attribute	Relationship with the company*1										
		a	b	c	d	e	f	g	h	i	j	k
Masatoshi Hatori	From another company				△							
Michiyo Hamada	Scholar											
Kenichi Udagawa	From another company											
Osamu Terada	From another company								△			

* The relationship between each person and the company is indicated with the above selectable items.

* If the person currently falls under or has recently fallen under a selectable item, “○” is inputted. If the person had fallen under a selectable item, “△” is inputted.

* If a close relative currently falls under or has recently fallen under a selectable item, “●” is inputted. If the close relative had fallen under a selectable item, “▲” is inputted.

- An Executive of the listed company or a subsidiary thereof
- An Executive or a Non-Executive Director of the parent company of the listed company
- An Executive of a fellow subsidiary of the listed company
- A person or Executive whose major business partner is the listed company
- A major business partner of the listed company or an Executive thereof
- A consultant, an accounting expert, or a legal expert who receives a large amount of money or other assets other than remuneration for Executives from the listed company
- A major shareholder of the listed company (or an Executive thereof if said major shareholder is a corporation)
- An Executive him/herself of a business partner of the listed company (that does not fall under any of d, e, and f)
- An Executive him/herself of a company in which an Executive of the listed company serves as an Outside Executive
- An Executive him/herself of a company to which the listed company has donated
- Other

Relationship with the company (2)

Name	Audit and Supervisory Committee Member	Independent Executive	Supplementary explanation on relevant items	Reason for appointment
Masatoshi Hatori	○	○	From March 2000 to March 2003, he served as	He was appointed as an Outside Director because he is versed in

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CORPORATE GOVERNANCE

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			<p>Representative Director and President of Fusogosei Co, Ltd., which is a supplier of wallcoverings and flooring materials, but after leaving office, he was not involved with business execution for over 20 years. Accordingly, this work record does not affect his independence.</p>	<p>company management as he has the experience of serving as Representative Director of a listed company (Kanegafuchi Chemical Industry Co., Ltd.: present: KANEKA CORPORATION). In addition, he was designated as an Independent Executive, because he has no special stake in the Company and it was judged that there is no risk of causing a conflict of interest with general shareholders.</p>
<p>Michiyo Hamada</p>	○	○	----	<p>She was appointed as an Outside Director, because she possesses advanced technical knowledge and deep insight as a scholar in company laws and a former member of Japan Fair Trade Commission. In addition, she was designated as an Independent Executive, because she has no special stake in the Company and it was judged that there is no risk of causing a conflict of interest with general shareholders.</p>
<p>Kenichi Udagawa</p>	○	○	----	<p>He was appointed as an Outside Director, because he possesses plenty of experience and expertise as he launched a variety of overseas businesses and expanded them for a listed company (Tosoh Corporation) and engaged in business administration as a person with</p>

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CORPORATE GOVERNANCE

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				the experience of serving as Representative Director. In addition, he was designated as an Independent Executive, because he has no special stake in the Company and it was judged that there is no risk of causing a conflict of interest with general shareholders.
Osamu Terada	○	○	He served as a Director of Shimizu Corporation, which is a business partner of the Company, until June 2020, but the amount of transactions with Shimizu Corporation accounts for less than 0.001% of the consolidated sales in FY 2022. Accordingly, this work record does not affect his independence.	He was appointed as an Outside Director, because he possesses plenty of experience, advanced expertise, and deep insight into the construction industry as he contributed to the expansion of domestic and overseas construction business and engaged in business administration as a person with the experience of serving as Representative Director for a listed company (SHIMIZU CORPORATION). In addition, he was designated as an Independent Executive, because he has no special stake in the Company and it was judged that there is no risk of causing a conflict of interest with general shareholders.

[Audit and Supervisory Committee]

Composition of the Committee and the attributes of the Chairperson

	Total number of members	No. of full-time members	No. of Inside Directors	No. of Outside Directors	Chairperson
Audit and Supervisory	5	1	1	4	Outside Director

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CORPORATE GOVERNANCE

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Committee					
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Existence of Directors or employees who should support the Audit and Supervisory Committee in performing duties	Exist
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Items regarding the independence of said Directors or employees from Executive Directors

A full-time member of the Audit and Supervisory Committee serves as a Director who should support the Audit and Supervisory Committee in performing duties. The office of the Audit and Supervisory Committee was established to support its activities, and a full-time assistant and a part-time assistant work at the office. In order to secure the independence of said Directors or employees, the Company obtains the consent of the Audit and Supervisory Committee in advance when making a decision about the authority over personnel issues, such as appointment, transfer, and disciplinary action.

Situation of cooperation among the Audit and Supervisory Committee, the accounting auditor, and the Internal Audit Division

The Audit and Supervisory Committee and the accounting auditor investigate the situations of business execution and assets at the headquarters, major offices, and subsidiaries, and demand reporting. In order to improve the reliability of Financial Statements, the Audit and Supervisory Committee and the accounting auditor hold a meeting regularly once a quarter and when necessary, to share audit plans and results, and conduct effective and efficient audits. Furthermore, the Audit and Supervisory Committee holds a session for reporting internal audits with the Internal Audit Division regularly once a quarter, to comprehensively and objectively evaluate the appropriateness of the internal control system, give proposals for improvements, encourage staff to correct extracted problems, and conduct follow-up activities.

[Discretionary committees]

Existence of a discretionary committee corresponding to a Nomination or Remuneration Committee	Exist
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Establishment of a discretionary committee, committee composition, and attributes of the chairperson

A discretionary committee corresponding to a Nomination Committee

Name of the Committee			Nomination and Remuneration Committee			
Total number of members	No. of full-time members	No. of Inside Directors	No. of Outside Directors	No. of inside intellectuals	No. of other members	Chairperson
5	0	1	4	0	0	Outside Director

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A discretionary committee corresponding to a Remuneration committee

Name of the committee			Nomination and Remuneration Committee			
Total number of members	No. of full-time members	No. of Inside Directors	No. of Outside Directors	No. of inside intellectuals	No. of other members	Chairperson
5	0	1	4	0	0	Outside Director

Supplementary explanation

The above committee was established in FY 2015, and meets several times a year.

The committee is composed of the President & CEO and all Outside Directors, who are members of the Audit and Supervisory Committee, and evaluates the performance of the members of the Board of Directors in the next term and Directors who concurrently serve as Executive Officers, manages and evaluates the senior management, and deliberates ideal systems for remuneration for Executives, the appropriateness of remuneration levels, etc.

It is aimed at securing the transparency and objectivity of management and remuneration of Executives.

[Regarding Independent Executives]

Number of Independent Executives	4
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Other items regarding Independent Executives

All of Outside Directors who are qualified as Independent Executives are designated as Independent Executives.

The criteria for judging the independence of Executives are shown in Section I-1 “Disclosure Based on the Principles of the Corporate Governance Code,” “Criteria for Determining the Independence of Independent Outside Directors and their Qualities” of this document.

[Regarding incentives]

Status of implementation of measures for giving incentives to Directors	Adoption of a performance-linked remuneration system and others
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Supplementary explanation on relevant items

The performance-linked remuneration for Directors who concurrently serve as Executive Officers is paid according to the performance in the previous fiscal year, under the condition that the sum of the basic remuneration and the performance-linked remuneration does not exceed 400 million yen. In addition, the Company had paid stock options whose total amount does not exceed 120 million yen per year, but at the annual meeting of shareholders held on June 23, 2017, the Company resolved to pay remuneration for giving restricted stocks whose total amount does not exceed 120 million yen per year. Accordingly, the Company abolished stock options for Directors who concurrently serve as Executive Officers, except already provided stock options.

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The remuneration for Directors, who are members of the Audit and Supervisory Committee, is only the basic fixed remuneration, which is not linked to performance.

Those who would receive stock options	Inside Directors
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Supplementary explanation on relevant items

In FY 2015 and FY 2016, the Company issued share acquisition rights as stock options for the purpose of motivating the Executive Officers and Directors who concurrently serve as Executive Officers to improve the business performance and operate business while putting importance on the benefits of shareholders by making them share not only the merits of a rise in share price, but also the risk of a drop in share price.

(In FY 2017, the Company revised the remuneration system for Executive Officers and Directors who concurrently serve as Executive Officers, abolishing stock options except already provided ones, and deciding to pay remuneration for giving restricted stocks.)

[Regarding the remuneration for Directors]

Status of disclosure	The amount of remuneration for each Officer is not disclosed.
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Supplementary explanation on relevant items

The total amount of remuneration for Directors is disclosed in Annual Securities Reports and Business Reports.

Policy for determining remuneration amounts and methods for calculating them	Exist
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Disclosed information on the policy for determining remuneration amounts and methods for calculating them

The remuneration amounts of Directors who concurrently serve as Executive Officers, excluding those who belong to the Audit and Supervisory Committee, are determined by the Board of Directors within the total remuneration amount determined through a resolution at a General Meeting of Shareholders, after the Nomination and Remuneration Committee, which is composed of all Outside Directors, who are members of the Audit and Supervisory Committee, carefully deliberates whether the remuneration amounts are commensurate with their respective roles, duties, performance, and outcomes and whether the remuneration amounts motivate them to improve corporate value. The remuneration for Directors who do not concurrently serve as Executive Officers, excluding those who belong to the Audit and Supervisory Committee, and Directors who belong to the Audit and Supervisory Committee is limited to the basic remuneration, which is not linked to performance. The remuneration amounts of Directors who belong to the Audit and Supervisory Committee are determined through discussions by Directors who belong to the Audit and Supervisory Committee, within the total amount determined through a resolution at a General Meeting of Shareholders.

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[System for supporting Outside Directors (Auditors)]

In order to ensure the smooth execution of duties by Outside Directors, who are members of the Audit and Supervisory Committee, the Audit and Supervisory Committee office was established to support the activities of the Audit and Supervisory Committee, and a full-time assistant and a part-time assistant work at the office, to receive support from related sections. For important information, the Company established a system in which Directors who are full-time members of the Audit and Supervisory Committee and Directors who concurrently serve as Executive Officers give explanations or submit reports to Outside Directors when necessary.

[Situation of those who have retired as Representative Director and President and others]

Names, etc. of advisers, consultants, and others who are former Representative Directors and Presidents

Name	Post/position	Details of tasks	Working mode/condition (Full-time/part-time, with/without remuneration, etc.)	Date of retirement as President or the like	Term of office
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Total number of advisers, consultants, and others who are former Representative Directors and Presidents	0
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Other items

The Company abolished the systems with advisers and consultants. However, the Company appointed Touzou Hibi, who is from the founder’s family, as a part-time special adviser without remuneration.

2. Items Regarding the Functions to Execute Business, Audit, and Oversee Business Operations, Nominate Candidates, Determine Remuneration Amounts, Etc. (Outline of the Current Corporate Governance Structure)

As of the date of submission of this document, the corporate governance structure is constituted by the Board of Directors, the Audit and Supervisory Committee, and comptrollers. There are 7 Directors, include 5 ones who belong to the Audit and Supervisory Committee, and 4 of them are Outside Directors who belong to the Audit and Supervisory Committee.

In principle, the Board of Directors meets once a month, to share management information and take appropriate measures timely.

The Audit and Supervisory Committee is composed of 5 Directors, including 4 Outside Directors, and 1 full-time member is appointed.

Audit reports are produced through discussions by the Audit and Supervisory Committee after receiving reports from each member. Regarding measures for enhancing the functions of the Audit and Supervisory Committee, the Company appointed a full-time member and established the Audit and Supervisory Committee office, where a full-time staff member and a

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part-time staff member work, to closely cooperate with the Auditing Section, which is an Internal Audit Division, and the Internal Control Section.

Directors who concurrently serve as Executive Officers execute business in accordance with laws, regulations, the Articles of Incorporation, and in-house regulations, such as the regulations for the Board of Directors.

Regarding the business execution by Directors who concurrently serve as Executive Officers, the President & CEO proposes the allocation of tasks among Directors, and the Board of Directors approves said proposal.

When appointing Directors who concurrently serve as Executive Officers and determining their remuneration amounts, the Company consults with the Nomination and Remuneration Committee.

For internal audits, the Auditing Section was established, and 2 staff members report the results of in-house audits and improvement plans to the President & CEO and full-time Audit and Supervisory Committee Members. In addition, the Internal Control Section was established, and 3 staff members promote internal control, make efforts to improve effectiveness, and report their evaluations on the development and operation of internal control systems to the President & CEO and full-time Audit and Supervisory Committee Members.

For comptrollers, the Company concluded an audit contract with Deloitte Touche Tohmatsu LLC, and developed an environment where they can conduct fair and appropriate audits as the Company provides them with necessary information on accounting and internal control. Comptrollers audit the accounting and internal control from an independent standpoint, and give guidance and advice about issues regarding accounting and internal control when necessary. In the Company, the Audit and Supervisory Committee specified that the term of office of a comptroller is up to 10 years in the “policy for adopting proposals for the appointment, dismissal, reappointment, etc. of comptrollers.”

3. Reason for Selecting the Current Corporate Governance Structure

The Company has an Audit and Supervisory Committee, and appointed 5 Directors, including 4 outside ones, who belong to the Audit and Supervisory Committee. When “Audit and Supervisory Committee Members,” who are in charge of audits, serve as Directors and are provided with voting rights at a meeting of the Board of Directors, this will enhance the function to audit and supervise business operations. In addition, when all Outside Executives, who are rare human resources, belong to the Board of Directors, the ratio of Outside Directors will increase, and this is expected to improve the transparency of business administration and lead to discussions on management from the viewpoints of shareholders. In addition, the Company adopted an executive officer system, in order to grow the corporate group further and fortify the corporate governance structure. By separating the decision making and supervising function from the business execution function of the management, the Company aims to clarify the responsibility for execution and makes business execution swifter.

III. Status of Implementation of Measures for Shareholders and Other Stakeholders

1. Efforts to Energize General Meetings of Shareholders and Streamline the Exercise of Voting Rights

	Supplementary explanation
Early distribution of convocation notices for general	So that shareholders can understand the financial standing, business performance, etc. to a sufficient degree, the Company distributes convocation notices to them

コーポレートガバナンス

CORPORATE GOVERNANCE

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meetings of shareholders	three weeks in advance (at least two weeks in advance according to law).
Scheduling a General Meeting of Shareholders while avoiding the dates on which many other companies hold general meetings of shareholders	In 2023, the Company will hold an annual General Meeting of Shareholders on Wednesday, June 21, to avoid the dates on which many other companies hold general meetings of shareholders.
Exercise of voting rights with electromagnetic methods	It is possible to exercise voting rights with the Internet, a smartphone, etc.
Participation in a platform for electronically exercising voting rights and other measures for improving the environment for institutional investors to exercise their voting rights	The Company joined a platform for electronically exercising voting rights for institutional investors, which is operated by ICJ, Inc.
Distribution of convocation notices (summaries) in English	The full text of each convocation notice was translated into English, and the English version is available in the website and the platform.
Other	The Japanese and English versions of each convocation notice are uploaded onto the website on the day before the date of dispatch. In addition, the video of each General Meeting of Shareholders and reference material are disclosed in the website.

2. Situation of IR Activities

	Supplementary explanation	Whether or not it is explained by the representative
Setting and announcement of a disclosure policy	The Company set a disclosure policy, and announced it in the website. It is described in Section V “2. Other Items Regarding Corporate Governance Systems, Etc.”	
Holding a regular briefing session for individual investors	After the end of a General Meeting of Shareholders, the Company holds a company briefing session, showroom tours, and a get-together for individual shareholders in the second week of July. All of the Directors and Executive Officers participate in these events, to exchange opinions with individual shareholders. In 2022, these events were cancelled to prevent the spread of COVID-19, but in 2023, the Company plans to hold them.	○

コーポレートガバナンス

CORPORATE GOVERNANCE

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Holding a regular briefing session for analysts and institutional investors	<p>After the announcement of financial results for the second quarter and for a fiscal year, the Company holds a results briefing session at which the representative gives explanations, and the videos of briefing are streamed broadly. The interim briefing session for the term ended March 2023, including a Q&A session, was held in the form of a webinar to prevent the spread of the novel coronavirus, and its video was streamed. The session for briefing the results for the term ended March 2023 are the session for briefing a new Medium-term Business Plan were held in the hybrid form (face-to-face + online).</p> <p>By utilizing an online conference system, the Company actively had dialogues with analysts and institutional investors through small meetings, individual interviews, etc.</p>	○
IR material is available in the website.	<p>Through the website, the Company timely discloses the Financial Results, Financial Summary Reports on quarterly results, Annual Securities Reports, Supplementary Materials for Financial Results, Presentation Materials for Financial Results Briefing, Integrated Reports, Medium-term Business Plans, and other documents.</p>	
Establishment of a section (appointment of staff) in charge of IR	<p>Public & Investor Relations Section was established as a specialized organization. It holds discussions with Budget Section in General Accounting Department, Management Planning Section in President's Office, and other related divisions, to appropriately adapt to the system for disclosing corporate information.</p>	

3. Situation of Measures Regarding the Respect for the Standpoints of Stakeholders

	Supplementary explanation	
In-house regulations for respecting the standpoints of stakeholders	<p>Related items are specified in "Sangetsu Group's Charter on Corporate Ethics." In addition, the Company formulated and announced "Sangetsu CSR Policy for Procurement" and "Sangetsu CSR Guidelines for Business Partners," to regulate transactions with suppliers.</p>	
Environmental conservation activities, CSR activities, etc.	<p>The Company set an environmental policy, and operate an environmental management system (for which the Company acquired the ISO14001 certificate in June 2001) under the policy, and promote continuous environmental conservation activities, including the recycling of used curtains, carpet tiles, product waste, and discarded sample books. In addition, the Company actively develops and sells energy-saving and resource-saving products, and environmentally friendly products, such as products that comply with the Act on Promoting</p>	

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	<p>Green Purchasing and Eco Mark-certified products. On April 1, 2016, the Company established CSR Promotion Section, and CSR Committee, which is chaired by the President & CEO and Executive Officer. In accordance with the 7 principles of ISO26000, the Company established 5 subcommittees, to control business activities systematically and enhance environmental conservation and CSR activities. (CSR Committee and CSR Promotion Section were renamed ESG Committee and ESG Promotion Section, respectively, in November 2020.)</p> <p>In the Medium-term Business Plan “D.C. 2022,” which was announced in May 2020, the Company considered the earth environment as an important issue for offering social value in addition to economic value in the business activities, and announced that the Company would pursue the four themes: (1) to reduce environmental burdens in business activities, (2) to grasp and decrease environmental burdens in the supply chain, (3) to enrich long-life products, and (4) to collect and recycle more sample books. For (1) to reduce environmental burdens in business activities, the Company had set a goal of reducing GHG emissions by 30% between 2018 and 2030, but the Company revised the goal, and the Company now aims to become carbon neutral by FY 2030. For (2), the Company estimates SCOPE 3 GHG emissions every year, and disclose the estimate in the website, etc. In addition, the Company conducts energy surveys targeting suppliers inside and outside Japan, to grasp GHG emissions from manufacturing by suppliers, and cooperates with the suppliers in reducing GHG emissions in the supply chain to realize environmentally friendly procurement. For (3), the Company developed and released wallcoverings made from resin, rice husks, and cypress, and glass films made from recycled PET. For (4), the Company established a sample book recycling center in March 2021, to decompose the collected sample books and shift to the recycling of materials. Furthermore, the Company engages in voluntary activities, such as the cleaning of nearby areas and beaches, the removal of lumber from forest thinning, and greenery conservation. For society (S) among ESG, the Company actively joins local communities, and participates in the support for renovation of orphanages around Japan, Table For Two (a project for delivering lunches to children in developing countries), and a project for delivering picture books to children in Asia, to support children in developing countries.</p>
<p>Setting of a policy for offering information to stakeholders, etc.</p>	<p>In accordance with “Sangetsu Group’s Charter on Corporate Ethics,” the Company tries to communicate with a broad range of stakeholders, including shareholders and investors, and disclose corporate information appropriately and fairly.</p>

IV. Items Regarding the Internal Control System, Etc.

1. Basic Policy for the Internal Control System, and Status of Development of the System

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.

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(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.

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(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

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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. Basic Policy for Eliminating Antisocial Forces and Status of Development of Related Systems

The Company has no relationships with antisocial forces, and if the Company receives an unreasonable request from an antisocial force, the Company will respond with a firm attitude. The Company will reject and eliminate any relationships with antisocial forces.

In addition, the Risk Control Committee manages related matters, smooth in-house communication, and cooperate with related sections and corporate lawyers, in accordance with “Sangetsu Group Code of Conduct for Compliance” and “Regulations for Risk Control.”

On the other hand, the Company gathers necessary information in cooperate with Aichi Prefectural Police, police stations, and other related public offices and other external specialized organizations, such as “Aichi Prefectural Council for Protecting Enterprises,” in which the Company was registered.

V. Other

1. Measures Against Hostile Takeovers

Measures against hostile takeovers	Not adopted
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Supplementary explanation on relevant items

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The Company gives top priority to winning the support of shareholders by improving the corporate value, and pursues the improvement in corporate value by aiming to change from a stably excellent enterprise into a growing enterprise. On the other hand, the Company will discuss measures against buyouts when necessary, in order to secure or improve corporate value and the common benefits of shareholders, while considering the risk that there will emerge a buyer that will degrade the corporate value.

The Company will continue research while considering concrete measures against hostile takeovers as important matters.

2. Other Items Regarding Corporate Governance Systems, Etc.

The status of the in-house system for timely disclosure of corporate information is as follows.

Disclosure policy

[In-house system for timely disclosure of corporate information]

1. Disclosure policy

The Company complies with laws, including the Financial Instruments and Exchange Act, and regulations, including those of stock exchanges, and formulated policies and methods for disclosing important information on the Company as standards for information disclosure. Following these standards, the Company discloses important financial, social, and environmental information on the Company fairly, timely, and appropriately.

The Company has also established a system in which group companies can convey important information to each other accurately and swiftly in accordance with the regulations for management of affiliated companies, and a system for disclosing socially useful information on the Sangetsu Group without delay.

2. System for reporting important information

The Company classifies important information into:

- Important facts according to the Companies Act
- Important facts according to the Financial Instruments and Exchange Act
- Important facts according to the regulations of stock exchanges, and
- Other important facts recognized by information control managers.

As soon as the Company obtains important information that falls under any of the above, the Company will report said information to the information control manager specified in the regulations for management of insider trading, etc. and the information control manager will judge whether said information should be disclosed. If the disclosure of said information is judged as necessary, it will be reported to the President & CEO and said information will be disclosed immediately.

Mainly Public & Investor Relations Section deals with disclosure tasks, and produces documents to be disclosed in accordance with laws and regulations.

[Internal control of in-house systems related to important information]

In addition to the standards for information disclosure, the Company set rules for control of insider trading, etc. so as to prevent insider trading, which violates the Financial Instruments and Exchange Act.

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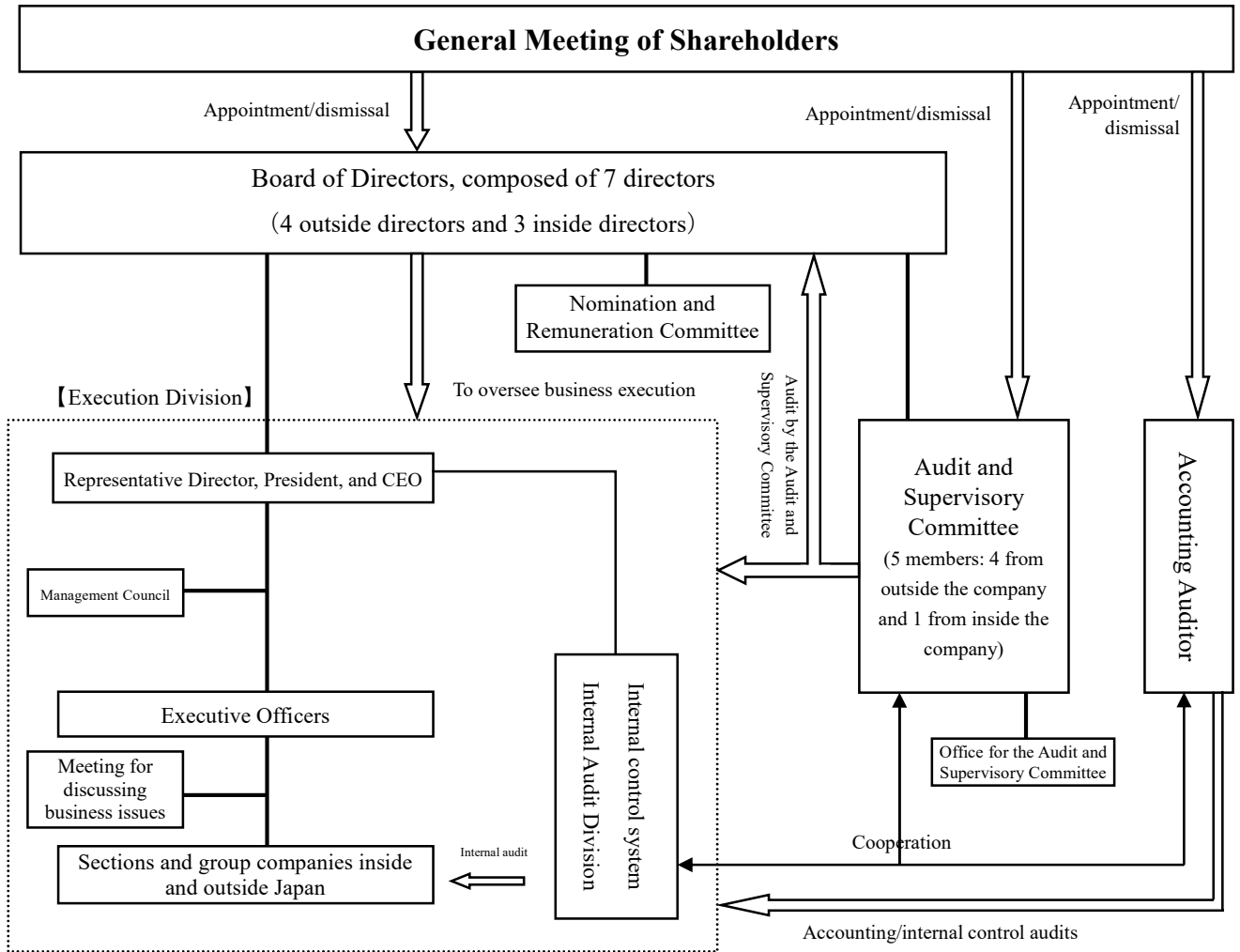
Said rules stipulate that the Company shall follow the Financial Instruments and Exchange Act, other related laws and regulations, and rules and notices required for business execution. The information control manager manages important information, and determines how to convey or handle information and others.

In addition, Internal Control Section formulates a basic policy for internal control for financial reporting, establishes systems, and conducts monitoring, operation, audits, and evaluation of effectiveness of the systems, and holds a meeting when necessary, to discuss items to be disclosed and report the progress of internal control and audits.

All employees can browse the Sangetsu Group Policy for Human Rights, Charter on Corporate Ethics, in-company rules, and standards via the Intranet. The Company also set a code of conduct for compliance with laws and regulations for the Sangetsu Group, and distributed a compliance handbook to all employees, and hold in-house lectures, to diffuse the importance of compliance with laws and regulations thoroughly at every opportunity.

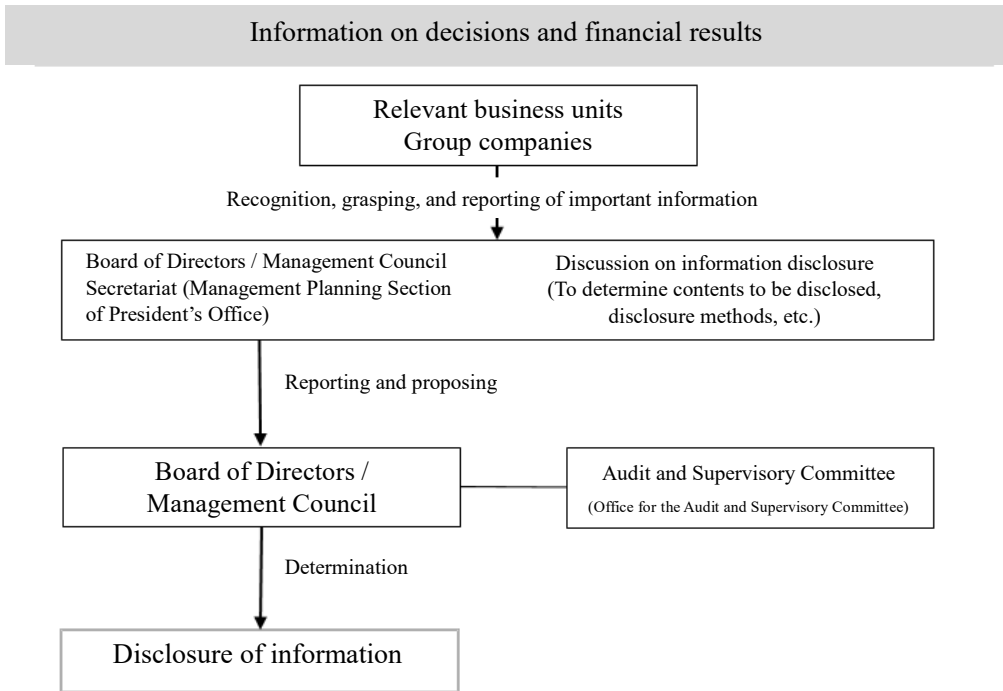
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【Chart of the Corporate Governance Structure】



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[Outline of the timely disclosure system]



*The contents to be disclosed will be checked and examined by Management Planning Section in President's Office, Public & Investor Relations Section, General Accounting Department, Legal Department, etc. When necessary, we will have discussions with the section in charge of relevant important information and external experts.

