

Business Report

April 1, 2023, to March 31, 2024

1. Matters concerning the State of the Corporate Group

(1) Progress and Outcomes of Business Operations

During the consolidated period under review (April 1, 2023, to March 31, 2024), the Japanese economy recovered somewhat amid the economic normalization that followed the downgrading of Covid-19 to a category 5 disease. Globally, however, economic uncertainties persisted. Negative economic factors included geopolitical risks such as worsening strife in the Middle East and tensions with Russia. They also included economic slowdown in China and inflation around the world.

As for our performance, in southern India, we celebrated the launch of Track Design India Private Limited, a manufacturer and seller of parts for construction machinery founded as a joint venture with a South Korean forgings manufacturer. We also obtained stock in Inagaki-Shouten (a company that engages in the small-lot processing and sale of non-ferrous metals), strengthening our distribution network in Japan. These actions furthered our efforts to build sustainable growth.

We also took actions to enhance our future growth prospects. These actions included investing in a biotech business and investing in a pilot project for promoting local production and consumption of biomass for biopower.

In recognition of our environmental action and reporting, the CDP (an international non-profit organization that runs an environmental reporting system) awarded us a B score in the management category for the second year running. We were also listed in the large enterprise category of the 2024 Certified Health & Productivity Management Outstanding Organizations Recognition Program, as we were in the 2023 program. In October 2023, we further strengthened our organizational commitment to sustainability by publishing a basic policy on human rights.

Our consolidated financial results were as follows: We recorded ¥591,431 million in sales (up 1.1% from the previous year), ¥13,296 million in operating income (down 1.2%), ¥12,814 million in ordinary income (up 1.1%), and ¥9,111 million in net income attributable to shareholders of parent (down 0.9%).

The performance of each business segment was as follows.

(i) Iron & Steel

Revenue and profit increased. Sales of special steel and steel-plate/sheet products (the mainstay products) recovered somewhat amid an increase in auto-production in Japan, although they decreased in the construction sector because of lower demand there. Higher sales prices for steel-plate/sheet products contributed to the revenue and profit growth. Consequently, the Iron & Steel Segment posted sales of ¥257,839 million (up 8.1% from the previous year) and segment income of ¥6,634 million (up 29.1%).

(ii) Ferrous Raw Materials

We sold fewer main raw materials to Kobe Steel because Kobe Steel produced less crude steel, and we sold the raw materials at lower prices. However, we achieved a high volume of sales of biomass materials, a strategically important product for our company. Consequently, the Ferrous

Raw Materials Segment saw sales of ¥72,626 million (up 12.5% from the previous year). Segment income amounted to ¥1,514 million (up 1.1%).

(iii) Nonferrous Metals

Among copper products, we saw a modest increase in sales volume of copper sheets and strips for automotive connectors. Among other non-ferrous materials, we saw a modest increase in sales of aluminum and copper scraps. However, overseas, we sold far fewer aluminum products for automotive applications compared to last year. Consequently, the Nonferrous Metals Segment posted sales of ¥171,847 million (down 11.6% from the previous year) and segment income of ¥1,635 million (down 38.9%).

(iv) Machinery & Electronics

Revenue and profit increased. While we sold fewer machinery and construction parts to steel and tire makers, we sold more items related to decarbonization efforts in the Kobelco Group, and the maintenance business performed well. Consequently, the Machinery & Electronics Segment posted sales of ¥59,898 million (up 3.0% from the previous year) and segment income of ¥2,312 million (up 6.6%).

(v) Welding

Revenue and profit for welding materials increased, with sales price increases offsetting a decline in sales for key applications (shipbuilding, automaking, and construction machinery). However, for the segment as a whole, revenue increased, but profit decreased because, among the production materials, titanium materials sold less well. Consequently, the Welding Segment posted sales of ¥28,918 million (up 0.2% from the previous year) and segment income of ¥744 million (down 7.5%).

Sales and Income by Segment

Segment	105th term		106th term		Year-on-year change	
	Sales	Segment income	Sales	Segment income	Sales	Segment income
	million JPY	million JPY	million JPY	million JPY	%	%
Iron & Steel	238,585	5,140	257,839	6,634	8.1	29.1
Ferrous Raw Materials	64,535	1,498	72,626	1,514	12.5	1.1
Nonferrous Metals	194,480	2,675	171,847	1,635	(11.6)	(38.9)
Machinery & Electronics	58,143	2,170	59,898	2,312	3.0	6.6
Welding	28,870	804	28,918	744	0.2	(7.5)
Other	538	378	633	(27)	17.8	—
Adjustment	(297)	—	(334)	—	12.4	—
Total	584,856	12,668	591,431	12,814	1.1	1.1

(2) Capital Expenditure

In the current fiscal year, capital expenditure (including in intangible fixed assets) totaled approximately ¥2.1 billion. A large share of the expenditure was allocated to enhancing the assets of Grand Blanc Processing, L.L.C., and Suzhou Shinko-Shoji Material Co., Ltd.

(3) Ongoing Challenges

Medium-term plan for 2024-2026

The year under review was the final year of the medium-term plan for 2021–2023 (year ended March 2022 to year ended March 2024; old MTP). During the year under review, we performed well, riding on a post-pandemic recovery. Over the three-year period of the old MTP, we recorded significant profit growth. This growth was a result of focusing on business consolidations and M&As with keiretsu affiliates in Japan and on global business expansion. It was also a result of a favorable macro environment—high steel prices and the low yen.

Our new medium-term plan for 2024-2026 (new MTP), which covers the year ending March 2025 to year ending March 2027, aligns with our long-term vision, to be a trading company that supports manufacturing for tomorrow and contributes to society. The new MTP commits us to growth in three ways: 1) expanding and cultivating our businesses as a core trading company of the Kobelco group, 2) developing our own supply chains with a view to diversifying our business model, and 3) driving business creation in a way that both addresses societal issues and strengthens our profitability.

Sustainable business growth requires talent development. We will therefore continue to commit to a human capital strategy that will help sustain long-term value creation.

Through such actions, we will work toward the new MTP's financial targets: ¥14.5 billion in consolidated ordinary income, an ROE of 10.0% or higher, an ROIC of 6.5%, and an equity ratio of 21% or higher. The new MTP also sets out a shareholder returns policy in which we deliver dividends with a consolidated payout ratio of 30% or higher or a payout of ¥300 per share, whichever is greater.

Outlined below are the ongoing challenges.

(i) Strengthening our trading function

One ongoing challenge involves the consolidation of our business divisions. Until now, we have had five longstanding divisions. In each division, we have delivered the high-level expertise in products expected of a trading company. However, in the year ending March 2025, we consolidated the five units into two divisions in order to generate more inter-divisional synergies. The first is the metals division, which consists of the iron and steel unit, the non-ferrous unit, and the ferrous and recycling materials unit. The second is the machinery and welding division, which consists of the machinery unit and the welding unit. By integrating adjoining business sectors in this way, we can develop our business model horizontally, deploy talent more effectively, and boost our profitability and our trading company functions. With the five former divisions now redefined as units, we will continue deliver trading company functions in way that is highly targeted to customers' needs.

During the three years of the old MTP, we focused on facilitating investment as our top strategic priority, but outcomes fell short of targets. We must therefore take more action in these areas.

To enhance profitability over the three years of the new MTP, we have created the New Business Promotion Department. Independent of any sales division, this department will facilitate business incubation and investment.

(ii) Embracing diversity

We hire and promote diverse talent on the principle that job security and equal employment opportunities should be available to all, regardless of race, nationality, creed, gender, or disability. In the year ended March 2023, we overturned our talent management system. To encourage a self-learning, self-driven workforce, we scrapped seniority-based promotion and gave employees greater choice in their career options in our organization.

As part of the human capital strategy set out in the MTP, we have committed to goals for empowering women in the workplace: women in 5% of management roles and 18% of career-track positions by the final year of the new MTP period (ended March 2027). We have also committed to building a workplace culture conducive to innovation. To that end, we encourage employees to gain experience across different areas of the organization by running a job rotation scheme for employees in their third year in the company and by prioritizing inter-divisional experience in the criteria for promoting to management roles.

(iii) Keeping capital costs in check

We have a longstanding track record in keeping capital costs in check and have used ROE as a KPI of financial performance for years. Our old MTP set out an ROE target was 9% or higher. Our ROE met this target in each of the three years: It was 12.0% in the year ended March 2022, 13.6% in the year ended March 2023, and 11.5% in the year under review (ended March 2024).

The old MTP set a benchmark payout ratio of 30%. The payout ratio was 30.4% for the FY2021 dividend and 30.3% for the FY2022 dividend. Likewise, the dividend for the year under review exceeded the 30% benchmark.

After discussing strategies to increase our capital efficiency, we set out new strategies, targets, and a shareholder returns policy in the new MTP aligned with the goal of building our long-term value.

(4) Assets and Income

(i) Assets and Income of the Corporate Group

Segment	103rd term (FY2020)	104th term (FY2021)	105th term (FY2022)	106th term (FY2023) (period under review)
Sales* (millions of yen)	784,160	494,351	584,856	591,431
Ordinary income (millions of yen)	4,067	9,726	12,668	12,814
Net income (millions of yen)	2,198	7,136	9,196	9,111
Earnings per share (yen)	248.24	805.91	1,042.65	1,035.38
Total assets (millions of yen)	286,233	364,029	395,092	396,408
Total equity (millions of yen)	57,185	63,753	73,896	87,480

* The new revenue recognition standard applies to all terms except the 103rd term.

(ii) Assets and Income of Shinsho Corporation

Segment	103rd term (FY2020)	104th term (FY2021)	105th term (FY2022)	106th term (FY2023) (year under review)
Sales (millions of yen)	646,529	345,607	415,342	423,773
Ordinary income (millions of yen)	4,044	6,382	8,634	10,624
Net income (millions of yen)	2,313	4,928	6,643	8,552
Earnings per share (yen)	261.23	556.56	752.94	971.58
Total assets (millions of yen)	215,371	267,265	277,341	282,670
Total equity (millions of yen)	42,176	45,552	50,495	61,387

* The new revenue recognition standard applies to all terms except the 103rd term.

(5) Parent Company and Significant Consolidated Subsidiaries**(i) Significant Consolidated Subsidiaries**

Company name	Paid-in capital	Investment ratio %	Main Business Lines
Shinsho Steel Products Corporation	million JPY 310	100	Trading of construction materials and special steel products
MORIMOTO KOSAN Co., Ltd.	million JPY 30	100	Trading of steel products; cutting, processing, and trading of steel-plate and sheet materials
Shinsho Non-Ferrous Metals Corp.	million JPY 90	100	Cutting, processing, and trading of aluminum and copper products
Shinsho Metals Corporation	million JPY 30	100	Trading of raw nonferrous metals and processed products
INAGAKI-SHOUTEN Co., Ltd.	million JPY 90	100	Wholesaling of non-ferrous metal products
Matsubo Corporation	million JPY 465	100	Import, export, and trading (in Japan) of industrial machinery and plants; contracted installation of machinery
SC Welding Corporation	million JPY 44	100	Trading of welding materials, welding equipment, and welding robot systems
Shinsho Business Support Co., Ltd.	million JPY 10	100	Contracted personnel operations; temporary staffing
Shinsho American Corp.	thousand USD 19,000	100	Import, export, and trading of products related to iron & steel, ferrous raw materials, nonferrous metals, machinery, and information industry
Grand Blanc Processing, L.L.C.	thousand USD 18,000	70*	Secondary processing of special steel wire products
Aiken Wire Processing, L.L.C.	thousand USD 2,617	100*	Wire drawings for special steel wire rod

Company name	Paid-in capital	Investment ratio %	Main Business Lines
Shinsho Mexico S.A. de C.V.	thousand USD 1,500	100*	Import, export, and trading of iron & steel products
Shinsho Europe GmbH	thousand EUR 1,000	100	Import, export, and trading of products related to iron & steel, nonferrous metals, machinery, information industry, and welding
Kobelco Trading Australia Pty. Ltd.	thousand AUD 1,700	100	Investment in mineral rights
Kobelco Trading (Shanghai) Co., Ltd.	thousand USD 13,000	100	Import, export, and trading of products related to iron & steel, ferrous raw materials, nonferrous metals, machinery, information industry, and welding
Suzhou Shinko-Shoji Material Co., Ltd.	thousand USD 8,820	100	Slitting, shirring, processing, and trading of aluminum rolling materials
Kobelco Precision Parts (Suzhou) Co., Ltd.	million JPY 450	100	Precision-processing of products for liquid crystal displays and semiconductor equipment; bonding-processing of target materials
Kobelco Precision Parts (Yangzhou) Co., Ltd.	million JPY 400	100	Processing and trading of semiconductor equipment, flat-panel display equipment, and other products
Shinsho Osaka Seiko (Nantong) Corp.	thousand USD 5,000	55	Manufacture, processing, and trading of automotive parts
Shanghai Shinsho Trading Co., Ltd.	thousand USD 200	100	Import, export, and trading of products related to iron & steel, nonferrous metals, machinery, information industry, and welding
Thai Escorp Ltd.	thousand THB 300,000	100	Import, export, and trading of products related to iron & steel, ferrous raw materials, nonferrous metals, machinery, information industry, and welding
Shinko Shoji Singapore Pte. Ltd. Ltd.	thousand SGD 2,400	100	Import, export, and trading of products related to ferrous raw materials, nonferrous metals, and welding
PT. Kobelco Trading Indonesia	thousand USD 1,750	100*	Import, export, and trading of products related to iron & steel, ferrous raw materials, nonferrous metals, machinery, information industry, and welding
Kobelco Trading Vietnam Co., Ltd.	thousand USD 1,500	100	Import, export, and trading of products related to iron & steel, ferrous raw materials, nonferrous metals, machinery, and information industry

Company name	Paid-in capital	Investment ratio %	Main Business Lines
KTN Metal Vietnam Co., Ltd.	thousand USD 1,000	60*	Cutting and processing of aluminum plates and round bars
Kobelco Trading India Private Limited	thousand INR 45,000	100*	Import, export, and trading of products related to iron & steel, ferrous raw materials, nonferrous metals, machinery, information industry, and welding
Shinsho Korea Co., Ltd.	thousand KRW 400,000	100	Import, export, and trading of products related to iron & steel, ferrous raw materials, nonferrous metals, machinery, information industry, and welding
KTN Co., Ltd.	thousand KRW 900,000	100*	Cutting, processing, and wholesaling of aluminum sheets
Shinsho (Malaysia) Sdn.Bhd.	thousand MYR 1,000	100	Import, export, and trading of products related to nonferrous metals and welding
Taiwan Shinsho Corporation Taiwan Shinsho Corporation	thousand TWD 5,000	100	Import, export, and trading of products related to nonferrous metals, machinery, and information industry

Notes An asterisk (*) indicates that the shares include indirect investment.

1. On October 2, 2023, we acquired a 100% stake in Inagaki-Shouten, making the company a fully consolidated subsidiary.
2. On July 31, 2023, we acquired the remaining 20% of shares in Kobelco Precision Parts (Suzhou), making the company a fully consolidated subsidiary.
3. Following a transfer of shares within Kobelco Group, we now directly hold 100% of Shinsho (Malaysia)'s shares.

(ii) Other

Company name	Paid-in capital	Main Business Lines
Kobe Steel, Ltd.	million JPY 250,930	Manufacture and trading of steel & aluminum, advanced materials, and machinery, etc.

(Note) Kobe Steel, Ltd. is a major shareholder. The company holds 3,085,000 shares of our stock (an investment ratio of 34.85%), including contributions to the retirement benefit trust. Kobe Steel is also a major supplier and client.

(6) Main Business Lines

The main business lines include the import, export and trading of products related to iron and steel, ferrous raw materials, nonferrous metals, machinery, information industry and welding.

Segment	Main business lines
Iron & Steel	Pig iron, semi-worked iron & steel products, carbon steel products, special steel products, secondary and tertiary iron & steel products, construction materials and processed products, titanium products, stainless products, steel powders, steel castings, and forgings
Ferrous Materials Raw	Iron ore, coal, coke, coke breeze, iron scrap, pig iron for steelmaking, hot briquetted iron (HBI), alloy steel, auxiliary materials for pig iron and steel production, titanium materials, petroleum products, slag products, chemical products, and renewable-energy materials (refused paper and plastic fuel [RPF], sawdust, palm kernel shells [PKS], woodchips)
Nonferrous Metals	Copper products, aluminum products, nonferrous metal ingot and scrap, copper and aluminum processed products, and aluminum/copper/magnesium castings and forgings
Machinery & Electronics	Tire and rubber machinery, manufacturing machinery for iron and nonferrous metals, chemical machinery, vacuum deposition apparatus, furnaces, compressors (including gas compressors), environmental equipment, all other kinds of industrial machinery, electronic equipment and parts and construction machinery parts.
Welding	Welding materials, welding equipment, welding robot systems, welding equipment, high-pressure gas cylinders, welding raw materials, auxiliary materials, raw materials for processing

(7) Main Business Offices and Worksites

(i) Shinsho Corporation

Name	Location	Name	Location
Osaka Head Office	Osaka, Japan	Shizuoka Branch	Shizuoka, Japan
Tokyo Head Office	Tokyo, Japan	Hokuriku Branch	Toyama, Japan
Nagoya Branch Office	Aichi, Japan	Sapporo Branch	Hokkaido, Japan
Kobe Branch Office	Hyogo, Japan	Tokuyama Office	Yamaguchi, Japan
Kyushu Branch Office	Fukuoka, Japan	Dubai Representative Office	United Arab Emirates
Chugoku Branch	Hiroshima, Japan	Sydney Representative Office	Australia
Kakogawa Branch	Hyogo, Japan		

(ii) Consolidated Subsidiaries

Name	Location	Name	Location
Shinsho Steel Products Corporation	Osaka and Tokyo, Japan	Suzhou Shinko-Shoji Material Co., Ltd.	China
MORIMOTO KOSAN Co., Ltd.	Osaka, Japan	Kobelco Precision Parts (Suzhou) Co., Ltd.	China
Shinsho Non-Ferrous Metals Corp.	Osaka and Tokyo, Japan	Kobelco Precision Parts (Yangzhou) Co., Ltd.	China
Shinsho Metals Corporation	Tokyo, Japan	Shinsho Osaka Seiko (Nantong) Corporation	China
INAGAKI-SHOUTEN Co., Ltd.	Osaka, Japan	Shanghai Shinsho Trading Co., Ltd.	China
Matsubo Corporation	Tokyo and Osaka, Japan	Thai Escorp Ltd.	Thailand
SC Welding Corporation	Osaka, Japan	Shinko Shoji Singapore Pte. Ltd.	Singapore
Shinsho Business Support Co., Ltd.	Osaka, Japan	PT. Kobelco Trading Indonesia	Indonesia
Shinsho American Corp.	United States	Kobelco Trading Vietnam Co., Ltd.	Vietnam
Grand Blanc Processing, L.L.C.	United States	KTN Metal Vietnam Co., Ltd.	Vietnam
Aiken Wire Processing, L.L.C.	United States	Kobelco Trading India Private Limited	India
Shinsho Mexico S.A. de C.V.	Mexico	Shinsho Korea Co., Ltd.	South Korea
Shinsho Europe GmbH	Germany	KTN Co., Ltd.	South Korea
Kobelco Trading Australia Pty. Ltd.	Australia	Shinsho (Malaysia) Sdn. Bhd.	Malaysia
Kobelco Trading (Shanghai) Co., Ltd.	China	Taiwan Shinsho Corporation	Taiwan

(8) Employees

(i) Employees of the Corporate Group

No. of employees	Change from previous fiscal year
1,443	39

Note: The number of employees does not include the 83 temporary employees.

(ii) Employees of Shinsho Corporation

No. of employees	Change from previous fiscal year	Average age	Average years of service
457	Increase of 1	39 years and 2 months	14 years and 5 months

(Note) 1. The number of employees excludes employees seconded to an employer outside the Group but includes the reverse case—employees seconded to the Group by an outside employer.

2. The number of employees does not include the 53 temporary employees.

(9) Major Lenders

Lender	Amount borrowed
Mizuho Bank, Ltd.	15,779 million JPY
Sumitomo Mitsui Banking Corporation	10,155
MUFG Bank, Ltd.	9,931

2. Notes on the Company's Shares

(1) Total number of authorized shares

27,000,000

(2) Total number of issued shares

8,860,562

Outstanding shares: 8,855,411

Treasury stock: 5,151

(3) Number of shareholders

5,210

Change from previous year: Decrease of 276

(4) Major shareholders (top 10)

Major shareholder	Number of shares held	Ownership ratio
Mizuho Trust & Banking Co., Ltd. (account for Kobe Steel's retirement benefit trust)	1,906	21.53%
Kobe Steel, Ltd.	1,179	13.32
Shinsho Client Shareholding Association	789	8.92
The Master Trust Bank of Japan, Ltd. (trust account)	680	7.69
Custody Bank of Japan, Ltd. (trust account)	537	6.07
Shinsho Employees' Shareholding Association	206	2.34
SINFONIA TECHNOLOGY CO., LTD.	150	1.69
Tojiro Ashida	115	1.31
DFA INTL SMALL CAP VALUE PORTFOLIO	109	1.24
Mizuho Trust & Banking Co., Ltd. (account for KOBELCO WIRE COMPANY's retirement benefit trust)	80	0.91

Note: Ownership ratio describes the percentage of shares outstanding (= issued shares minus treasury shares) held.

3. Notes on the Company's Corporate Officers

(1) Process for Appointing Directors and Audit & Supervisory Board Members

All candidates for the office of director are nominated with one-year terms of office by resolution of the Board of Directors, and are then appointed by resolution of the Ordinary General Meeting of Shareholders. Candidate members or substitute members of the Audit & Supervisory Board are nominated by resolution of the Board of Directors upon the approval of the Audit & Supervisory Board, and are then appointed by resolution of the Ordinary General Meeting of Shareholders. To ensure that the Board of Directors' decision making process for nominations is transparent and fair, the Board of Directors first seeks the opinion of the Advisory Committee on Appointments, in which Outside Officers (persons who hold the position of outside director or outside Audit & Supervisory Board member) make up the majority.

(2) Directors and Audit & Supervisory Board Members

Corporate title	Name	Role(s), including any significant roles in other organizations
President and CEO	Takafumi Morichi	Outside Director (part-time) of Sanoh Industrial Co., Ltd.
Representative Director and Senior Executive Officer	Masahito Adachi	General manager of the Nonferrous Metals Division; supervisor of the Iron & Steel Division; president of Suzhou Shinko-Shoji Material Co., Ltd., and of Kobelco Precision Parts (Suzhou) Co., Ltd.
Director	Yasuyuki Watanabe	Responsible for the Business & Risk Management Department and the Auditing Department; supervisor of the Finance & Accounting Department, the Personnel Department, the Welding Division, and Overseas Regions
Director	Shinya Yoshida	General manager of Machinery & Electronics Division; responsible for the General Affairs Department and the Credit and Legal Department; supervisor of the Corporate Planning Department and the Ferrous Raw Materials Division
Director	Yoshio Tano	President of Assured Business Consulting; director of N&C IT Partners (part-time)
Director	Miyuki Nakagawa	President of Nakagawa Miyuki CPA Office; president of Mirai Kaikei Kenkyusho; outside director (part time) of Nankai Tatsumura Construction Co., Ltd.
Audit & Supervisory Board member (standing)	Akira Ichikawa	
Audit & Supervisory Board member (standing)	Kanehisa Ueda	
Audit & Supervisory Board member	Hiroko Kaneko	Matsuo & Kosugi (law firm) ; Director (part-time) of Topy Industries, Ltd.; Independent Director of Kibun Foods Inc.

Audit & Supervisory Board member	Shinya Miyawaki	President of The Hyogo Industrial Association, Hyogo Public University Corporation, and Hyogo Prefectural Board of Education
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Notes:

- The following personnel changes were implemented on June 23, 2023:
 - Resignations Yoshihiro Maeda and Hiroko Kaneko resigned as Audit & Supervisory Board members, their term of office having ended.
 - Appointments Kanehisa Ueda and Hiroko Kaneko became Audit & Supervisory Board members after their nominations were approved.
- Yoshio Tano and Miyuki Nakagawa are both outside directors as provided for in Article 2, Paragraph 15, of the Companies Act. We have designated them as independent officers as prescribed by the TSE Securities Listing Regulations and registered them with the TSE.
- Hiroko Kaneko and Shinya Miyawaki are both outside members of the Audit & Supervisory Board as provided for in Article 2, Paragraph 16, of the Companies Act. We have designated Hiroko Kaneko as an independent officer as prescribed by the TSE Securities Listing Regulations and registered her with the TSE.
- Kanehisa Ueda has served worked in the Company's Finance Department and served as general manager of Nonferrous Metals Division and Business Planning Office. He has also served as a director at Shinsho Non-Ferrous Metals Corp and as chair of the Company's Audit & Supervisory Board. He therefore has considerable insights into finance and accounting.
- We have entered into agreements with our outside directors and Audit & Supervisory Board members limiting their liability under Article 423, Paragraph 1, of the Companies Act. Based on these agreements, the amount of liability is limited to the extent stipulated in Article 425, Paragraph 1, of the said Act.
- We have taken out insurance specified in Article 430-3, Paragraph 1 of the Companies Act. The insurance covers the costs (including the legal costs) of damages claims awarded, during the coverage period, against any director, member of the Audit & Supervisory Board, or executive officer of our company or of our subsidiaries, who is found liable for wrongful acts in the performance of his or her duties. The policy does not cover cases in which the insured party found liable had intentionally obtained unlawful gain or favor, or had intentionally engaged in illegal activity, malpractice, fraud, or any activity that violated a relevant law or regulation. We pay the entirety of the premiums for each insured party.
- We have entered into indemnity agreements with all directors and Audit & Supervisory Board members in which we may indemnify defense costs (as defined in Item 1 of Article 430-2, Paragraph 1, of the Companies Act) and losses (as defined in Item 2 of said paragraph) to the extent permitted by law. However, to ensure that these agreements do not discourage the parties from acting in a professional, legal, and ethical manner, a compensation committee formed of Audit & Supervisory Board members and an external lawyer will determine the criteria for indemnification and extent to which we would cover the costs and losses. The indemnity agreements do not cover cases in which the corporate officer is revealed to have exploited his or her position for improper gains or to have deliberately executed business in a way that would cause harm to the company, or cases in which the corporate officer faces a damages claim as a result of committing malice or gross negligence in his or her duties.
- The names of the officers and their responsibilities as of March 31, 2024, are shown below.

Corporate title	Name	Role(s)
President and CEO*	Takafumi Morichi	
Senior Executive Officer*	Masahito Adachi	General manager of the Nonferrous Metals Division; supervisor of the Iron & Steel Division; president of Suzhou Shinko-Shoji Material Co., Ltd., and of Kobelco Precision Parts (Suzhou) Co., Ltd.

Corporate title	Name	Role(s)
Senior Executive Officer	Satoshi Nishimura	General manager of Iron & Steel Division; responsible for North America and Europe region
Managing Executive Officer*	Yasuyuki Watanabe	Responsible for the Business & Risk Management Department and the Auditing Department; supervisor of the Finance & Accounting Department, the Personnel Department, the Welding Division, and Overseas Regions
Managing Executive Officer*	Shinya Yoshida	General manager of Machinery & Electronics Division; responsible for the General Affairs Department and the Credit and Legal Department; supervisor of the Corporate Planning Department and the Ferrous Raw Materials Division
Managing Executive Officer	Masato Matsubayashi	Deputy General manager of the Nonferrous Metals Division
Managing Executive Officer	Masaaki Takada	General manager of the Iron & Steel Division; responsible for the China region
Managing Executive Officer	Shinji Urade	Deputy General manager of the Machinery & Electronics Division
Officer	Hiroyuki Arizono	General manager of the Welding Division; president of SC Welding Corporation
Officer	Hironobu Takashita	Responsible for president's special strategic assignments (medium-term planning); responsible for the Finance & Accounting Department and Personnel Department; provides operational support to the Finance & Accounting Department and Nonferrous Metals Division
Officer	Yutaka Koba	Deputy General Manager of the Nonferrous Metals Division; representative Director of Shinsho Metals Corporation
Officer	Jun Takahashi	Supervisor of the Corporate Planning Department; responsible for branches & offices, ASEAN region, and India & Middle East region; head of the Corporate Planning Department
Officer	Toshinori Fujihara	Deputy General Manager of the Iron & Steel Division; president of Shinsho Steel Products Corporation
Officer	Mitsuharu Karikomi	General manager of Ferrous Raw Materials Division
Officer	Ryosuke Misawa	Deputy General manager of the Machinery & Electronics Division
Officer	Yoshiyuki Nakagawa	General manager of the Iron & Steel Division

Note: An asterisk (*) indicates that the officer is also a director.

(3) Remuneration for Directors and Audit & Supervisory Board Members

(i) Basic policy

Disclosed below is our basis for determining the remuneration for each director and member of the Audit & Supervisory Board. This basis was established by resolution of the Board of Directors.

i) Remuneration for directors

Remuneration for directors encompasses the total remuneration paid to executives (persons who serve as an executive director or executive officer) and to non-executive officers (persons who either serve as an outside director or who serve as an internal director but reside outside Japan). The amount is set by the Board of Directors following a review by the Advisory Committee on Remuneration.

Remuneration for executives once consisted of two components: a base salary, which is tied to rank, and performance-linked pay. Since FY2022, we introduced a third component, stock compensation, following shareholder approval at the 104th Ordinary General Meeting of Shareholders, held on June 24, 2022. The purpose of stock compensation is to motivate executives to contribute toward the organization's performance and growth in value over the medium and long term.

Thus, remuneration for executives now consists of a base salary, performance-linked pay as a short-term incentive, and stock compensation as a long-term incentive.

Remuneration for non-executives consists of a base salary only. This base salary encourages them to fulfill their expected oversight role (monitoring the management from an independent standpoint).

ii) Remuneration for Audit & Supervisory Board member

Remuneration for members of the Audit & Supervisory Board consists of a base salary. This base salary encourages them to fulfill their expected oversight role (monitoring the management from an independent standpoint).

(ii) Policy for determining remuneration for each director

i) Remuneration

a) Base salary

Base salary is tied to rank and assigned duties.

b) Performance-linked pay

Performance-linked pay serves as a short-term incentive. We have set 14 grades of performance-linked pay tied to consolidated ordinary income, a quantitative measure of business management over the short term. The grade of pay executives earn depends on the operating income performance—attainment of target and change from the previous year—achieved by the company and by the operations for which the executive in question is responsible.

At the lowest grade, no performance-linked pay is paid. At the highest grade, executives receive an amount equivalent to 33% to 58% of the base salary, depending on their responsibility. Thus, for executives with heavier duties, performance-linked pay makes up a greater share their remuneration.

c) Stock compensation

Stock compensation serves as a long-term incentive. The system is designed so that the stock compensation is worth around 10% of the base salary in accordance with the share

delivery regulations. Each year, we assign a standardized amount of points to each executive director based on their rank. On June 1, we allocate shares based on the points.

Each point is worth one share of common stock. When executive directors resign, they can redeem their accumulated points (the total points they have earned as of the time they resign) for the shares.

(*) About the stock compensation plan

Shares used in the stock compensation plan are held in a trust (formally known as the Board Incentive Plan for Executive Officers). This trust delivers stock compensation (meaning shares of the Company's stock or a sum of cash equivalent to the conversion value of the shares) to persons who are an executive director (a director who is not an outside director) or executive officer of the Company and who reside in Japan.

Stock compensation includes a malus clause; eligible executives who commit grave malpractice will forfeit their eligibility to receive stock compensation under the plan. The plan also includes a clawback clause; eligible executives who commit grave malpractice will be required to return stock compensation delivered to them.

ii) Remuneration level

The Advisory Committee on Remuneration regularly benchmarks our remuneration against that paid by other organizations, referring to objective, third-party data on companies with a similar business profile and market capitalization to us.

(iii) Grounds on which the Board of Directors determined that the remuneration for each recipient in the relevant fiscal year was consistent with the above policy

To ensure transparency and fairness in the Board of Directors' decision-making process on remuneration, the Advisory Committee on Remuneration, in which company outsiders make up the majority the members, reviewed whether the remuneration paid to directors was appropriate in view of the basic policy on corporate governance stipulated in Japan's Corporate Governance Code. The board considered the committee's findings and resolved a level of remuneration within the range approved at the General Meeting of Shareholders.

(iv) Policy for determining remuneration for each member of the Audit & Supervisory Committee

Members of the Audit & Supervisory Board decide among themselves each member's share of the total remuneration for Audit & Supervisory Board members, taking into account each member's duties and responsibilities.

(v) Shareholder resolution concerning the remuneration of directors and Audit & Supervisory Board members

At the 99th General Meeting of Shareholders, held on June 28, 2017, the shareholders resolved that remuneration for directors should be capped at 352 million yen a year and that remuneration for outside directors should be capped at 29 million yen a year.

This cap does not apply to stock compensation. The cap for this non-monetary form of remuneration is set separately. During that business year, there were six directors, two of whom were outside directors.

At the 99th General Meeting of Shareholders, held on June 28, 2017, the shareholders resolved that remuneration for Audit & Supervisory Board members should be capped at 75 million yen a year and that remuneration for outside Audit & Supervisory Board member should be capped at 22 million yen a year. During that business year, there were five Audit & Supervisory Board members, two of whom were outside Audit & Supervisory Board members.

Amounts of Remuneration for Directors and Audit & Supervisory Board Members

Recipient status	Amount of remuneration	Remuneration component			Number of recipients
	(millions of yen)	Base salary	Performance-linked pay	Stock compensation	
Director	193	129	50	14	6
(Outside directors)	(15)	(15)	(0)	(-)	(2)
Audit & Supervisory Board member	67	67	0	-	5
(Outside Audit & Supervisory Board member)	(14)	(14)	(0)	(-)	(2)

(Note) Remuneration for executives is added to expenses for the business year in question. At the 104th Ordinary General Meeting of Shareholders, held on June 24, 2022, the shareholders resolved the following details concerning the remuneration for executives: For every five-year period, the company can add to the trust fund a cash amount of up to 280 million yen to the trust fund, and for every business year, the trust can allot the directors up to 16,000 share points.

(4) Notes on Outside Directors and Audit & Supervisory Board Members

i) Shinsho Corporation's Relationship with the Organizations in which its Directors and Audit & Supervisory Board Members Hold Significant Concurrent Positions

Yoshio Tano (director) holds concurrent positions in Assured Business Consulting and N&C IT Partners. We have no significant transactional or other relationships with these organizations.

Miyuki Nakagawa (director) holds concurrent positions in Nakagawa Miyuki CPA Office, Mirai Kaikei Kenkyusho, and Nankai Tatsumura Construction Co., Ltd. We have no significant transactional or other relationships with these organizations.

Hiroko Kaneko (Audit & Supervisory Board member) holds concurrent positions in Matsuo & Kosugi, Topy Industries, and Kibun Foods Inc. We have no any significant transactional or other relationships with these organizations.

Shinya Miyawaki (Audit & Supervisory Board member) holds a concurrent position in the Hyogo Industrial Association, Hyogo Public University Corporation, and the Hyogo Prefectural Board of Education. We have no any significant transactional or other relationships with this organization.

ii) Major Activities During the Period Under Review

i) Board Attendance

	Board of Directors	Audit & Supervisory Board
	Attendance frequency	Attendance frequency
Yoshio Tano (director)	19 out of 20 meetings	–
Miyuki Nakagawa (director)	All 20 meetings	–
Hiroko Kaneko (Audit & Supervisory Board member)	19 out of 20 meetings	9 out of 10 meetings
Shinya Miyawaki (Audit & Supervisory Board member)	All 20 meetings	All 10 meetings

ii) Board Engagement, Services Rendered

Yoshio Tano (director) offered impartial advice and suggestions on ensuring reasonable and appropriate decision-making, drawing primarily on the formidable track record and expertise in business management that he had demonstrated previously as CEO of Kobelco Systems Corporation. His well-informed advice and suggestions have contributed toward the management of the Company and help the Company implement a digital transformation, which in turn will help build its enterprise value. As a member of the Advisory Committee on Nominations, the Advisory Committee on Remuneration, and the Sustainability Committee, he oversaw the management from an independent perspective.

Miyuki Nakagawa (director) offered impartial advice and suggestions on ensuring reasonable and appropriate decision-making, drawing primarily on her track record as a certified public accountant and on the wide-ranging insights she gained working in supervisory roles in public-sector organizations. As a member of the Advisory Committee on Nominations, the Advisory Committee on Remuneration, and the Sustainability Committee, she oversaw the management from an independent perspective.

Hiroko Kaneko (Audit & Supervisory Board member) offered advice and suggestions on ensuring reasonable and appropriate decision-making, drawing primarily on her legal expertise. She also attended regular opinion-exchange sessions with the top executives and assessed the execution of business operations.

Shinya Miyawaki (Audit & Supervisory Board member) offered advice and suggestions on ensuring reasonable and appropriate decision-making, drawing primarily on his engineering and business management knowledge. He also attended regular opinion-exchange sessions with the top executives and assessed the execution of business operations.

Hiroko Kaneko and Shinya Miyawaki (both Audit & Supervisory Board members) exchanged opinions regarding audit results and discussed important audit-related matters at the Audit & Supervisory Board.

Hiroko Kaneko (Audit & Supervisory Board member) additionally attended all meetings of the Compliance Committee held during the current fiscal year as a member of the Committee. During these meetings, she expressed her opinion on the fairness and transparency of Shinsho Corporation's efforts to comply with laws and regulations.

4. Accounting Auditor

(1) Name

KPMG Azsa LLC

(2) Remuneration

	Payment amount
Amount of remuneration for accounting auditor with respect to the current fiscal year	¥78 million
Total amount of cash and other economic benefits to be paid to the accounting auditor by the Company and subsidiaries	¥78 million

(Note)

1. In our audit contract with the accounting auditor, there is no distinction between the amount of remuneration paid for audits under the Companies Act and that paid for audits under the Financial Instruments and Exchange Act, and no such distinction can be made in actuality. Accordingly, the amount of remuneration with respect to the current fiscal year represents the total amount thereof.
2. Certain of our subsidiaries, including Shinsho American Corp., Thai Escorp Ltd., and Kobelco Trading (Shanghai) Co., Ltd., receive audits (meaning only audits that accord with the provisions of the Companies Act, the Financial Instruments and Exchange Act, or equivalent overseas laws) from a certified public accountant or incorporated auditing firm (including equivalent overseas qualifications or organizations to such) other than our accounting auditor.

(3) Grounds on which the Audit & Supervisory Board Members' Consented to the Accounting Auditor's Remuneration

Referring to the Japan Audit & Supervisory Board Members Association's "Practical Guidelines for Cooperation with Accounting Auditors," the Audit & Supervisory Board ascertained the auditing timeframe as stated in the accounting auditor's audit plans, trends in the remuneration for the accounting auditor, and the accounting auditor's audit plans and performance in the previous fiscal year. It then reviewed whether the estimated remuneration for the accounting auditor is appropriate in light of these matters. As a result of this review, the Audit & Supervisory Board consented toward the remuneration of the accounting auditor as provided for in Article 399, Paragraph 1 of the Companies Act.

(4) Criteria for Determining the Accounting Auditor's Dismissal or Non-Reappointment

If the accounting auditor becomes unable to perform its duties or there is other cause for dismissing or not reappointing the accounting auditor, the Audit & Supervisory Board will produce a proposal for the General Meeting of Shareholders concerning the dismissal or non-reappointment pursuant to the Audit & Supervisory Board's Criteria for the Appointment, Dismissal, or Non-reappointment of the Accounting Auditor, which adheres to Article 344 of the Companies Act.

The Audit & Supervisory Board will, by the unanimous consent of all members thereof, dismiss the accounting auditor if the accounting auditor is deemed to fall under any of the items listed in Article 340, Paragraph 1 of the Companies Act. In such case, the Audit & Supervisory Board will designate one

of its members to report the dismissal and the reasons thereof at the first General Meeting of Shareholders to be convened following the dismissal.

5. Company's System and Policy

(1) Internal controls for ensuring that directors execute their duties in compliance with laws, regulations, and the company's Articles of Incorporation; Other internal controls for ensuring that the company executes business appropriately

The following internal controls were adopted by resolution of the Board of Directors.

- (i) Ensuring that the directors and employees of Shinsho Corporation and other subsidiaries or affiliates of the corporate group (collectively, the "Group") execute their duties in compliance with laws, regulations, and our Articles of Incorporation
 - i) We maintain a high standard of corporate ethics. The Code of Corporate Ethics of Shinsho Group proclaims the importance of complying with laws, regulations, social norms, and company rules. The code also prescribes specific behavioral standards that all officers and employees are expected to uphold.
 - ii) We cultivate compliance consciousness across the Group and establish measures to monitor and prevent compliance violations in the Group. Specifically, we prepare and distribute a compliance manual and train employees in how to use the manual. Compliance is further supported by the Compliance Committee and the Shinsho Group Internal Reporting Hotline.
 - iii) The Code of Corporate Ethics of Shinsho Group conveys our unwavering stance against crime syndicates (meaning groups that threaten public order and safety, interfere unlawfully in civil disputes, or engage in racketeering or other organized criminal activity). We take steps to ensure that no member of the Group engages with crime syndicates in any way whatsoever.

- (ii) Internal Controls for Ensuring the integrity of the Group's financial reporting

To comply with the Financial Instruments and Exchange Act's requirements concerning internal control reporting, we take steps to ensure the reliability of financial reporting across the Group in accordance with the Basic Rules on Internal Controls Concerning Financial Reporting.

- (iii) Internal controls on the Storage and Management of Information related to the Execution of Duties by

We keep records to clearly document directors' decisions and actions, as well as the processes and the outcomes thereof. To ensure rigorous records management, we have established internal rules specifying the information that must be recorded (physically and digitally), the departments and officers responsible for managing this information, and how long the information must be kept. We periodically check that information is being duly stored to prevent loss or unauthorized disclosure.

- (iv) Rules on managing risk of loss throughout the Group
 - i) We identify loss risks associated with our businesses and establish a set of risk management protocols for each risk category (investment and lending, credit, derivative transactions, security trade control, and other major areas of risk). These protocols specify who is responsible for managing these risks, who has authority to make decisions, how risks should be internally audited, and whether a risk should be reported to the Board of Directors.

- ii) Using action plans, the Risk Management Committee monitors internal controls, including how effectively they are operating. The committee also reviews measures and company policies from a risk-management perspective and reports its findings to the Management Committee. In this way, it helps strengthen the risk management infrastructure across the Group.
 - iii) Rules are updated as necessary to reflect changes in the business environment and legislative changes. The protocols are integrated with our company-wide risk management rules, which in turn form part of a group-wide risk management infrastructure.
 - iv) We take steps to minimize damage and ensure business continuity in an adverse event. Specifically, we identify the kinds of scenarios that could substantially harm the Group's businesses, including accidents, natural disasters, and system failure. We then specify emergency responses protocols for each event, including emergency communications.
- (v) Internal controls to ensure that the directors of the Group perform effectively
- i) To streamline the execution of business, we have adopted an officer system that demarcates roles concerning decision-making and business execution. Under this system, the Board of Directors appoints officers (including those who concurrently serve as a representative director or director) and delegates certain business matters to them. With the supervision of the Board of Directors, these officers make decisions on these matters pursuant to the Rules on the Delegation of Duties.

Additionally, executive directors and officers issue quarterly reports to the Board of Directors concerning business they executed at the group company for which they are responsible.
 - ii) We establish and track the progress of three-year business plans and annual budgets for the Group to clarify business strategies and challenges, streamline business processes, and ensure that our policies are in-keeping with circumstances.
- (vi) Internal controls to ensure that business is executed appropriately throughout the Group;
Internal controls on reporting to the Company concerning execution of duties by affiliate directors
- i) To ensure that business is executed appropriately throughout the Group, we monitor legal compliance and risk management among our affiliates. We also support and guide each affiliate in developing and implementing internal controls that both suit affiliate's circumstances and comport with group-wide policies.
 - ii) We have established internal rules specifying the departments and officers responsible for overseeing affiliates, the business matters that we discuss with affiliates, the matters that affiliates must report in advance, and the protocols for intra-group transactions. This system helps us track the performance of each affiliate. If necessary, corporate-level personnel may audit or investigate the affiliate.
 - iii) The internal reporting system is accessible to all officers and employees of the Group, and affiliates can report information through the system.

- (vii) Stipulation that Audit & Supervisory Board members may have an assistant; Stipulation that this assistant be outside the command of directors; Stipulation that this assistant report only to Audit & Supervisory Board members

If Audit & Supervisory Board members so request, we may appoint an employee as a full-time assistant to the Audit & Supervisory Board members. In this role, the employee will handle the board's secretarial affairs. Decisions on appointments, dismissals, and performance evaluations of these assistants require the prior consent of the Audit & Supervisory Board members. The assistant will report only to Audit & Supervisory Board members, and not to directors.

- (viii) Internal controls to ensure that directors, Audit & Supervisory Board members, employees, or other cognizant parties can report concerns to Audit & Supervisory Board members; Internal controls to ensure that reported concerns are handled appropriately and internal controls to ensure that other internal controls for ensuring that Audit & Supervisory Board members audit and supervise effectively
- i) We have established measures whereby directors, Audit & Supervisory Board members, and employees of the Group can promptly notify an Audit & Supervisory Board member if they discover any circumstances that could potentially cause substantial harm to the Company.

To ensure that they can monitor the decision-making processes and the execution of business, Audit & Supervisory Board members may summon any director, fellow member, or employee of the Group to a meeting of a major committee (such as a meeting of the Management Committee, the Sustainability Committee, the Compliance Committee, the export control officers' conference, the Risk Management Committee or the Investment and Loan Committee) to give an account about a major approval document or other documentation related to the execution of business.
 - ii) To ensure that they audit and supervise efficiently, Audit & Supervisory Board members report to the Board of Directors regarding their annual audit policy, important items to be audited and supervised, and other relevant matters. The members also hold regular meetings with directors, the accounting auditor, and their counterparts in affiliates to exchange business information.
 - iii) We have established measures to ensure that directors, Audit & Supervisory Board members, employees of the Group, or other cognizant parties who report concerns to Audit & Supervisory Board members do not suffer maltreatment as a result of such reporting.
 - iv) If payment is requested, we will review the matter and promptly pay or indemnify the costs. However, we will not do so for costs that the member did not need to incur in the course of his or her duties.

(2) Actions taken to ensure effective execution of business

Compliance

To inculcate the Code of Corporate Ethics of Shinsho Group, we have distributed the Compliance Practice Manual to all our employees in our group companies. We have also provided compliance training tailored to each division or business unit and organized training at group companies. We have a whistleblowing system. The system makes whistleblowing simple by allowing employees to report concerns to an external agency. It also provides protections for whistleblowers.

Financial reporting

The Board of Directors has adopted a basic policy (Basic Policy on Internal Controls Concerning Financial Reporting). In accordance with this policy, we prepared audit plans and implemented internal audits throughout the year.

Systems concerning the management of documents

In accordance with the Rules concerning the Storage and Management of Information related to the Execution of Duties by Directors, we conducted an internal audit in February 2024, which confirmed that there are no problems related to the storage and management of such.

Risk management

We worked to manage risks effectively in line with the Risk Management Rules. Actions plans related risk management were established, reviewed, and revised by the Budget Review Council in March (those pertaining to Japanese businesses) and December (those pertaining to overseas businesses) and the Revised Budget Review Council in September (Japanese businesses) and June (overseas businesses). At meetings convened in May and November, 2023, the Risk Management Committee monitored the implementation of the action plans and determined priority actions.

• Actions taken to manage material risks

1) Investment risk:

The Investment and Loan Committee highlighted risks associated with prospective investments of the Group and advised on measures to minimize said risks. The committee also reviewed the performance of existing investments, devised countermeasures in cases where they identified concerns, and reported their findings as necessary to the meeting of the Board of Directors.

2) Information leakage risk:

Each company of the Group took action to protect Group information (physical security, human security, and IT infrastructure security) in accordance with the Corporate Secrets Management Rules.

3) Credit risk:

The Japan-based group companies thoroughly managed credit risks pursuant to the Credit Limit Control Rules and the equivalent rules of the affiliates concerned. The overseas affiliates managed these risks pursuant to the Credit Limit Control Rules for Overseas Affiliates.

4) Insider trading risk:

In accordance with the Rules for Managing the Prevention of Insider Trading, we used e-learning to train our employees and those of our affiliates in avoiding insider trading. Our employee shareholding association supervised employee purchases of company stock. To prevent corporate officers from engaging in insider trading, we managed their shareholdings through the directors' shareholding association. We also used the Japan-Insider Registration & Identification Support System to comply with the requirements Financial Services Agency and the Securities and Exchange Surveillance Commission.

5) Major disaster risk:

In accordance with the Rules on Countermeasures against Large-scale Disasters, we prepared infrastructure for emergency communications, conducted emergency drills at head office and in other workplaces, and managed our emergency reserve stocks.

Workflow management

Directors and officers issued quarterly reports to the Board of Directors concerning the execution of business pursuant to the Rules of the Board of Directors. Specifically, the directors and officers audited corporate matters, such as the Group's scope, which divisions are responsible for which affiliated businesses, who are responsible for managing affiliates' operations, and which matters require prior discussion. The Board of Directors then resolved these matters and reported its resolutions. The board also discussed measures to address concerns related to these corporate matters. In September 2023, the Revised Budget Review Council reviewed the progress in the first half of FY2023 (year ended March 2024) and the outlook for the second half. In March 2024, the Budget Review Council reviewed the progress in the second half, the budget for the forthcoming period, and the three-year business plans. Both councils reported their findings to the meetings of the Board of Directors held in September 2023 and March 2024, respectively, and the Board of Directors approved the findings.

Audit & Supervisory Board: System of reporting, board performance

System of reporting: The system of reporting to Audit & Supervisory Board members is operating effectively. When someone in the Group identifies a significant cause of concern, the concern is immediately reported to the Audit & Supervisory Board in accordance with the Basic Policy on Constructing an Internal Control System and with the Audit & Supervisory Board Members' Auditing Standards.

Board performance: The Audit & Supervisory Board members fulfilled their duty to audit and supervise business. To audit directors' performance, the members attended key corporate meetings at which they discussed concerns and scrutinized the directors. These meetings included those of the Board of Directors, Management Committee, Sustainability Committee, Compliance Committee, export control officers' conference, Risk Management Committee, Investment and Loan Committee, and Budget Review Committee. In some cases, all the members attended, while in other cases, certain members were selected to represent the board at the meeting. The members also held quarterly meetings to confer with the outside directors, the president, and the accounting auditor. They also regularly visited group companies to interview their counterparts and audit the workplace in order to check for any issues.

To inform directors about their operations and ensure the directors' cooperation, the members prepared an annual audit plan (from July to June the following year) on July and reported it to the Board of Directors.

(3) Policy for determining distribution of surplus

One of our corporate priorities is to return profits to shareholders in the form of dividends. Our basic policy is to continue paying dividends commensurate with business performance in the period concerned while ensuring that we have sufficient reserves to meet our business needs, including the need to ensure a strong business foundation and the need to have a solid financial footing for future development. We have set a benchmark of 30% in consolidated payout ratio.

Guided by this policy, we decided to pay a year-end dividend ¥190 per share for the current consolidated fiscal year.

Accordingly, the annual dividend, which includes an interim dividend amounts to ¥315 per share.

Numerical data in this report have been formatted as follows:

- (1) Monetary data displayed in millions of yen have been rounded down to the nearest million yen.
- (2) Stock data displayed in thousands of shares have been rounded down to the nearest thousand shares.