

## Reference Information for Our 97th Annual General Meeting of Shareholders

May, 2023

To Our Shareholders:

I hereby would like to update our shareholders, in advance of the next annual general meeting, on our current situation on the countermeasures we have taken against the inappropriate conduct in quality inspections (hereinafter “Inappropriate Conduct”) performed by one of our subsidiaries, Japan Steel Works M&E, Inc. (hereinafter “M&E”), which was discovered and publicly announced last year.

The upcoming annual general meeting will be held on Tuesday, June 27, 2023, which the measures for electronic provision for the notice of convocation will be taken from June 5, 2023 on JSW’s website.

At the annual shareholders meeting we are planning to submit our proposals as follows:

- Appropriation of Surplus
- Election of Directors
- Election of Audit & Supervisory Board Members

With regard to the Inappropriate Conduct, we do apologize for any concerns caused on our shareholders. The details of the Inappropriate Conduct and our countermeasures against it have been announced from time to time on our website([In Response to Inappropriate Conduct in Quality Inspections by Our Subsidiary \(jsw.co.jp\)](#)).

We hope the information released on our website written above and that in following “Supplementary Explanations” would help our shareholders to understand the situation better for their exercising voting rights.

Sincerely,

**Toshio Matsuo**  
Representative Director & President  
**The Japan Steel Works, Ltd.**

## Supplementary Explanations

### Outline of Inappropriate Conduct in Quality Inspections

- ✓ Falsifications, fabrications, or misstatements were found in the records of inspections or analyzations performed during the manufacturing process of the products at M&E, such as forgings and castings for power equipment or other applications. Cover-up of inspection records, insufficient or omitted reportings on production process or history were found on nuclear energy products.

These cases were revealed through a report from an internal whistle blower, followed by internal investigations and special investigations by external attorneys.

- ✓ None of them were of violates of laws or regulations but were a deviation from the contract/specification agreed with the customers. Any problem that might affect the quality or performance of those products resulting from Inappropriate Conduct has not been confirmed.
- ✓ The special investigation conducted by the Special Investigation Committee consisting of external attorneys covered other manufacturing bases of JSW other than M&E found no Inappropriate Conduct.

### Current business situation at M&E

- ✓ In fiscal 2022, M&E had suspended shipments, manufacturing, and receiving new orders for some of its main products, such as power products, cast steel products and forged steel products for which Inappropriate Conduct were recognized, and prioritized customer relations such as evaluating the soundness of goods-in-progress and shipped products. However, it has resumed shipments, manufacturing, and receiving new orders for products for which quality and the soundness of manufacturing processes were confirmed, and at the end of fiscal 2022, their operations were generally normalized.

As for nuclear energy products, some customers are continuing to verify the quality assurance process, but it is also resuming production of the products after obtaining customers' permission respectively.

- ✓ With respect to the ISO certifications for the manufacturing process, temporary suspension of a certification has lifted in March, and for some certificates that were withdrawn, M&E is expecting to receive recertifications during coming August to September.
- ✓ As the response from customers, no cancellation of orders or suspension of new transactions has occurred due to the Inappropriate Conduct.

(Note: Amount of orders received in the Material and Engineering Business ⇒ FY2021: 40.1 billion yen, FY2022: 41.1 billion yen)

In addition, we have been discussing with some customers reviewing product specifications and improving the efficiency of the inspection process. We have also asked them to re-evaluate the added value of M&E's products and to reflect it in product prices, which is accepted by some customers.

### Negative Impact on Fiscal 2022 results (Delay in sales: 3.8 bn JPY, Operating loss: 1.2 bn JPY, Extraordinary loss: 1.4bn JPY)

- ✓ The impact on M&E's performance in fiscal 2022 due to the Inappropriate Conduct was as follows (compared to the initial business budget and excluded the impact of soaring raw material and energy costs during the period):
  - sales declined by approximately 3.8 bn yen caused by the delays in shipments and manufacturing
  - operating losses of approximately 1.2 bn yen caused by the decline in sales, a temporary suspension of manufacturing and receiving new orders, and an increase in outsourcing expenses for inspection process
  - extraordinary losses of approximately 1.4 bn yen due to special investigation expenses by external attorneys, costs for in-house investigations, compensation for investigations response costs incurred by customers, and expenses for manufacturing a substitute (one case).

(Note: They are all reflected in the fiscal year ended March 31, 2023)

- ✓ In fiscal 2023, cost affection of the outsourcing such as those for inspection process cost would remain partially, however, the impact on M&E's net sales and operating income/loss would be expected to be immaterial since its operations have generally normalized.
- ✓ On the other hand, as for extraordinary losses, there would be a possibility of paying additional compensation for investigations response costs incurred by customers, although no claims are made yet.

## **Dispositions**

- ✓ In order to clarify the responsibility for the management and supervising of M&E as its parent company, we, JSW, have imposed dispositions on our directors and executive officers as follows and have announced the details thereof.
  - May 2022: Non-reappointment of a director and acceptance of resignation of a corporate auditor who have experience as an executive director of the Material and Engineering Business in which the Inappropriate Conduct was discovered.
  - November 2022: Monthly payment reduction for eight executive directors and executive officers according to their duties, who were in office at the time when M&E engaged the Inappropriate Conduct.
- ✓ In order to clarify the responsibility for managing and supervising for the Inappropriate Conduct issue, officer-equivalent individuals and managers (including employees temporarily transferred from JSW to M&E), monthly salary reductions or disciplinary actions (including demotion) were imposed according to their responsibilities. In addition, we announced internally and publicly on M&E's website the implementation of disciplinary actions in February 2023.
- ✓ No directors currently in office were involved in directly nor deliberately ignored the Inappropriate Conduct.

## **Strengthening governance**

- ✓ By shifting the functions of our Board of Directors to a more monitoring-based system, we can prevent the recurrence of misconduct in general.

Specifically, in April 2023, we principally abolished the supervisory functions of executive directors, and established the system whereby directors or executive officers in the head office and executive officers in the business divisions supervise and execute operations commissioned or appointed by the Board of Directors. This has enabled it to clearly separate the execution of operations in business divisions from the supervising of the Board of Directors.
- ✓ As to strengthen internal control functions, in September 2022 we established a Corporate Quality Management Division within the Head Office and appointed a director in charge of quality management. Along with separating the business execution and supervisory functions described above, we clarified the functions of the Corporate Quality Management Division as the second line of the Three-Lines Model for risk management and arranged for personnel to ensure its effectiveness.
- ✓ Our internal whistle blower system has a dual reporting line both to the President and to the Corporate Auditors. In addition to that, in case that the person who is accused by an internal whistle blower is an executive officer or so, such a report shall be submitted to the Nomination Advisory Committee. And the Committee shall deliberate on the disposition of such an executive officer and other relevant matters, thereby establishing and clarifying a series of procedures in such case.
- ✓ In the composition of the Board of Directors, we will increase the ratio of outside directors (independent directors) and ensure diversity. In addition, we will continue to consider the transition to a more monitoring-type system for the functions of the Board of Directors.

## **Efforts to Reform Corporate Culture**

- ✓ In the special investigation conducted by the Special Investigation Committee, we were pointed out that not only M&E but also our business sites as a whole lack the kind of atmosphere of free voice, communication between departments and have a corporate culture that emphasizes no failures and does not encourage or evaluate challenges. We recognize that is not only an important issue from the perspective of preventing scandals, but also an important issue related to the growth of the company itself. For this reason, the Board of Directors resolved as its basic policy to implement a variety of initiatives aimed to foster and reconcile "high ethical standards and a challenging spirit" with "psychological safety" in all operations and situations.

For reforming our corporate culture, we resolve and implement measures at various levels, and we will continue to follow them up through the results of employee questionnaires and engagement surveys. We will also report the results to the Board of Directors appropriately.

## 【 Other reference information】

### ■ Proposal for the election of officers at the 97th General Meeting of Shareholders

- ✓ In order to ensure further transparency of management, strengthen corporate governance and diversity, at the Ordinary General Meeting of Shareholders scheduled in June 2023, we will propose nine directors to be appointed upon the expiration of the terms of office of eight current directors. Among these, one female outside director (independent director) will be newly included. Two Corporate Auditors will also be elected upon expiration of the term of office of two Corporate Auditors. Of these, one will be a female Outside Corporate Auditor (independent director).
- ✓ As part of the response to the Inappropriate Conduct, we will propose as a candidate for a new director who have sufficient legal skills and knowledge and as a candidate for a corporate auditor who have sufficient skills and knowledge on Internal Audit.
- ✓ According to the mentioned above, four of nine directors are expected to be outside directors (44.4%), and one of nine directors is expected to be women (11.1%).

Similarly, two of the four corporate auditors will be outside auditors (50%), and one of the four corporate auditors will be female (25%).

### ■ Cross-shareholdings

- ✓ Our Board of Directors verifies the rationality of our cross-shareholdings. We are planning to reduce the amount of the cross-shareholdings to less than 10% of consolidated net assets by the year ended March 31, 2025.
- ✓ The ownership ratio was 12.3% at the end of March 2022 (13.7% including deemed holdings) and 11.4% at the end of March 2023 (13.1%).

### ■ Other reference indicators

	Year Ended March 31, 2019	Year Ended March 31, 2020	Year Ended March 31, 2021	Year Ended March 31, 2022	Year Ended March 31, 2023
Market Value at the end of the Period (Millions of yen)	149,878	96,175	193,230	281,034	182,413
Net Sales (Millions of yen)	220,153	217,527	198,041	213,790	238,721
Operating profit (Millions of yen)	24,290	18,709	10,226	15,460	13,846
Operating profit / net sales (%)	11.0	8.6	5.2	7.2	5.8
Ordinary profit (Millions of yen)	27,925	19,907	10,724	16,772	14,958
Profit attributable to owners of parent (Millions of yen)	19,966	9,310	6,893	13,948	11,974
Earnings per Share (EPS, yen)	271.69	126.66	93.76	189.63	162.75
Price-Earnings Ratio (PER, times)	7.5	10.3	28.0	20.1	15.2
Price-to-Book Ratio (PBR, times)	1.2	0.7	1.4	1.9	1.1
Profit attributable to owners of parent /equity (%)	16.3	7.2	5.1	9.6	7.8
Dividend payout ratio (Consolidated, %)	20.2	35.5	37.3	30.1	35.6
Acquisition of own shares (Millions of yen)	—	—	—	—	—
Dividends paid (Millions of yen)	3,307	4,227	2,573	2,942	4,672
Capital-to-asset ratio (%)	42.0	44.0	44.4	44.4	45.7
Highest share price (yen)	3,810	2,402	3,375	4,325	3,845
Lowest share price (yen)	1,640	906	1,163	2,363	2,322