Annual Securities Report

for the 73rd fiscal year, from April 1,2024 to March 31,2025

1-4-1, Habashita, Nishi-ku, Nagoya, Aichi, Japan

Sangetsu Corporation

Cover

Document title	Annual Securities Report
Clause of stipulation	Article 24, paragraph (1) of the Financial Instruments and Exchange Act
Place of filing	Director-General of the Kanto Local Finance Bureau
Filing date	June 17, 2025
Fiscal year	The 73rd fiscal year (From April 1, 2024 to March 31, 2025)
Company name	株式会社サンゲツ
Company name in English	Sangetsu Corporation
Title and name of representative	Yasumasa Kondo, Representative Director, President and CEO
Address of registered headquarters	1-4-1 Habashita, Nishi-ku, Nagoya, Aichi, Japan
Telephone number	052-564-3333
Name of contact person	Shigenobu Maki, Executive Officer, General Manager of Corporate Division
Nearest place of contact	1-4-1 Habashita, Nishi-ku, Nagoya, Aichi, Japan
Telephone number	052-564-3333
Name of contact person	Shigenobu Maki, Executive Officer, General Manager of Corporate Division
Place for public inspection	Tokyo Stock Exchange, Inc. (2-1 Nihombashi Kabutocho, Chuo-ku, Tokyo, Japan) Nagoya Stock Exchange, Inc. (8-20, Sakae 3-chome, Naka-ku, Nagoya, Aichi, Japan)

I. Overview of Business

1. Management policy, management environment, issues to be addressed, etc.

The Group’s management policy, management environment, and issues to be addressed, etc. are as follows.

Please note that matters concerning the future in this article were determined by the Group as of the end of the fiscal year ended March 31, 2025.

(1) Objective indicators for determining the status of achievement of management policies and management targets

1) Transition of value creation

Since being founded in 1849 and the incorporation of the Company in 1953, the Group has expanded its business with wholesale of interior products such as wall coverings, flooring materials, and fabrics related to interior as its core business. Net sales, which amounted to ¥100 million in 1960, reached ¥130 billion in 1997, achieving high growth. In addition, we have strengthened various functions such as product planning and development, design, logistics, and construction, and have established a solid position in the market.

While growth in the wholesale business for interior products slowed down following the peak in construction investment in Japan, we entered new businesses such as exterior and overseas businesses in the 2000s and expanded our business domains.

In particular, over the past decade, we have been accelerating growth investment, executing M&A both in Japan and overseas, investing in logistics and IT, which are important business infrastructures, and actively strengthening human capital, which is the foundation of the Group’s value creation.

These measures have been successful, and consolidated operating profit (operating profit/net sales) has grown significantly from ¥8.03 billion (6.1%) in FY2014 to ¥18.17 billion (9.1%) in FY2024.

Aiming for sustainable growth and value creation, the 10-year Long-term Vision [DESIGN 2030] launched in FY2020 sets forth a transformation into a “Space Creation Company” and actively promotes the deepening and transformation of four core businesses (interior, exterior, overseas, and space solutions), as well as the exploration and creation of new businesses. In addition, the three-year Medium-term Business Plan [BX 2025] launched in FY2023 positions this three-year period as a time to prepare for the next leap forward, and has identified five key measures: human capital, digital capital, ability to provide solutions, exterior and overseas businesses, and social value.

The Group will steadily implement the measures set forth in the Long-term Vision and the Medium-term Business Plan, and aim to further enhance corporate value by sincerely addressing market needs and social issues.

2) Sangetsu Group Corporate Philosophy

The Group has been striving to enhance corporate value in terms of both economic and social value through reviewing its organizational structure and management strategies in response to changes in the business environment and implementing various measures, while respecting the spirit of its founding. The changes in the business environment have become more drastic, along with the progress of digitalization, geopolitical risks, and the increasing complexity of social issues such as the environment and inequality. In addition, as the Group, we are moving forward with specific measures for future growth, such as expanding the scale and domain of business, deepening consolidated management including an increase in the number of group companies in Japan and overseas, and accelerating diversity.

Under these circumstances, we determined that a comprehensive review of the Corporate Philosophy, which set forth the values of the Group, was necessary in order to clarify the role that the Group should fulfill, such as creating new value, achieving exceptional growth, and solving social issues, and to link these to concrete actions together with stakeholders. In December 2022, we launched the “Corporate Philosophy Promotion Project,” where we held discussions and reviews in a bottom-up process involving many mid-career and young employees, including those from Group companies. As a result, we announced the new Corporate Philosophy in January 2024.

Under the new Corporate Philosophy, we positioned the Purpose (significance of existence) as the highest concept and set forth the Dream as the vision to realize for the future, defined the Belief as our firm corporate belief, and the Way as the attitude to be taken by employees. Through the creation of economic and social value achieved by corporate activities centered on space solutions, we aim for “With all people we collaborate to create peaceful and inspirational spaces.”

Sangetsu Group Corporate Philosophy

■ **Purpose: significance of existence**

With all people we collaborate to create peaceful and inspirational spaces

・Spaces, where people spend time, can bring peace and hope to their lives.
・Safe and comfortable space provides us source to live for tomorrow.
・Space filled with joy and excitement provides us all the power to imagine the future.

・The Sangetsu Group shares the wishes and challenges of all people together and seeks to create a world where everyone can achieve their dreams for tomorrow through the power of design and creativity.

■ **Dream: the vision we realize for the future**

A world where everyone can achieve their dreams together for a better tomorrow.

■ **Belief: the firm belief**

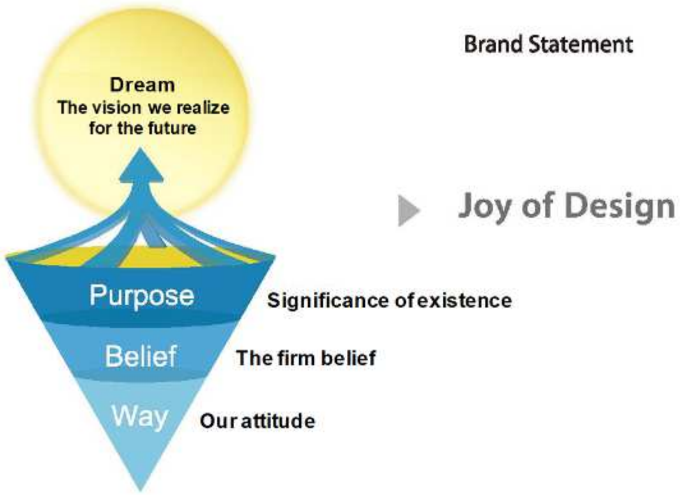
Corporate integrity is the foundation to change society.

■ **Way: our attitude**

・Openness and Fairness
・Creativity and Collaboration
・Challenge and Transformation

■ **Brand Statement**

Joy of Design

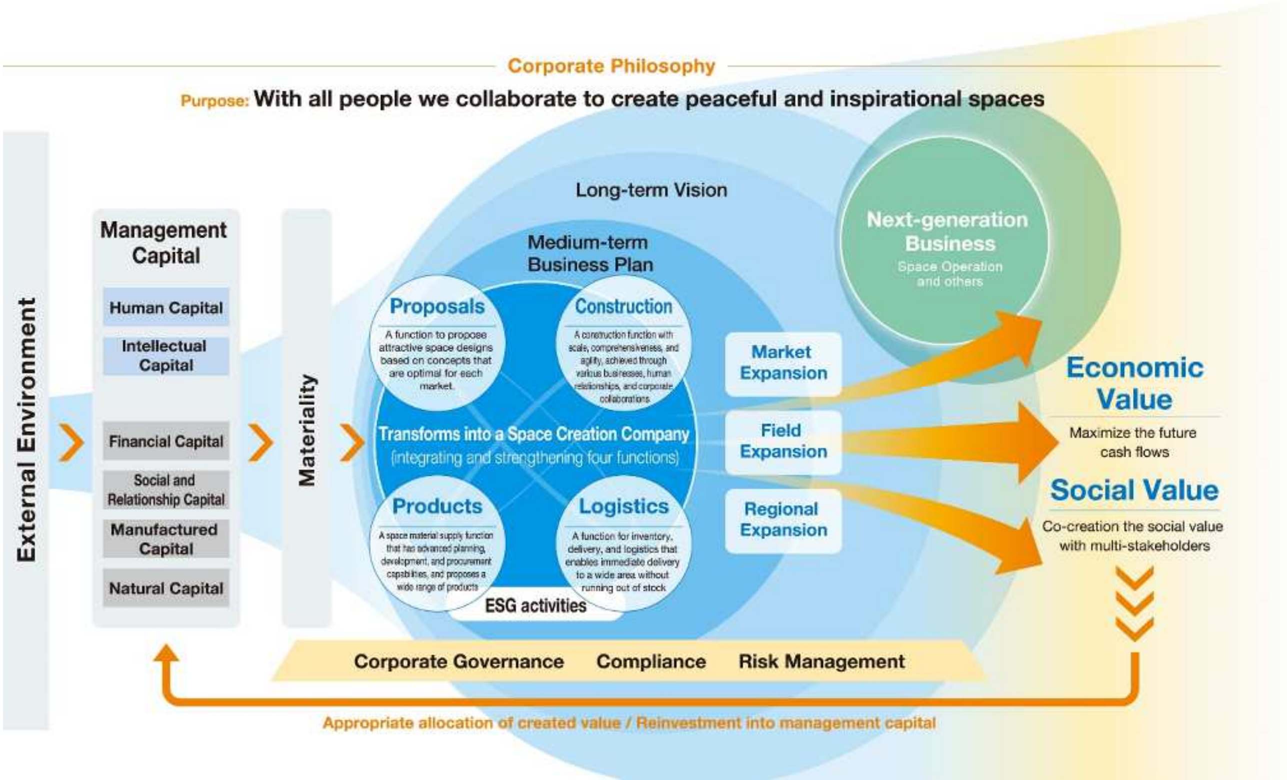


・Corporate Philosophy Promotion Project

The Group conducts activities to spread awareness of the Corporate Philosophy so that each employee can deepen their understanding of the Corporate Philosophy and feel a sense of connection with their own work and corporate activities. In 2024, workshops were held at each branch nationwide, and volunteer employees, including Group employees, participated. We are promoting a bottom-up initiative to ensure that the Corporate Philosophy serves as a "guideline for approach" in the work of the Group and that each and every employee becomes a participant in the transformation of corporate activities.

(Reference: Workshop overview)

3) Value creation process



The Group is promoting to transform into a "Space Creation Company" based on the Long-term Vision [DESIGN 2030] and the Medium-term Business Plan [BX 2025] with the aim of realizing the Corporate Philosophy. The value creation process outlines a story in which we aim to "create economic and social value" through business model transformation by strengthening the four functions in which we have competitive advantages and capabilities to propose solutions based on the integration of those functions, as well as by exploring and creating next-generation businesses that will become new growth opportunities, taking into consideration external and internal environments, materiality, etc.

4) The Long-term Vision of Sangetsu Group [DESIGN 2030]

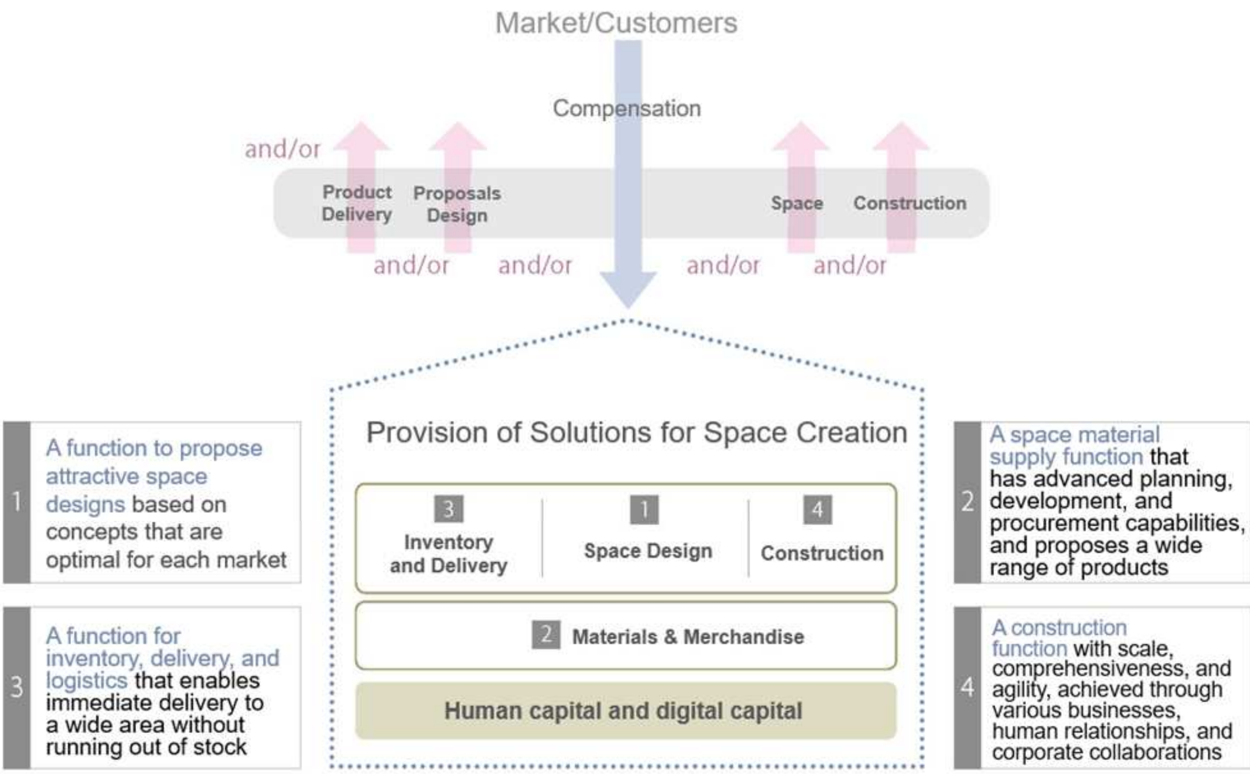
1. Corporate Vision

The Entire Sangetsu Group Aims to Become a "Space Creation Company"

We will utilize design capabilities and creativity based on human and digital capital to organically integrate four functions, which are:

・ Attractive space design proposals based on the best concept for each market
・ Space material provision that proposes a wide range of products with advanced planning, development, and procurement capabilities
・ Inventory, shipping, and logistics that enable immediate delivery over a wide area without running out of stock
・ Swift, large-scale, integrated construction through a variety of businesses, personal relationships, and corporate partnerships

By enhancing these four functions and capabilities to propose solutions based on their integration, we aim to become a company that provides high value in space creation on a global scale.



2. External and internal environment (assumed environmental awareness)

The external and internal environments and issues assumed at the time of formulating the Long-term Vision (May 2023) were as follows.

External Issues

- Stagnation of sales volume of existing leading products, such as wallcoverings, which have a high market share in the Japanese market
- Aging of installers and the apparent lack of construction capabilities
- Realization of the 2024 logistics problem in small-lot and heavy-goods deliveries
- Continuous rise in costs for materials, logistics, and labor
- Demand for recycled and environmentally friendly products at normal prices

Internal Issues

- Limited product lineup
- Lack of unique product design capabilities and the branding power to back them up
- Inadequacy of information technology system for integrated management of products, logistics, construction, sales, and management
- Lack of expertise in space design, construction management, quotation, procurement, and proposal submission
- Exterior business is limited in terms of geography and scale
- Lack of capabilities of proposing space design, delivering products in a short period of time, supporting construction, and designing products of overseas subsidiaries; lack of a strong business model
- Increase in selling, general, and administrative expenses as a result of business transformation
- Changes in employees' mindset, engagement, and compliance, and the decrease of ratio of regular employees
- Low investment in human capital, including education and training

On the other hand, the business environment is changing at an accelerating pace, and we recognize the external and internal environment and issues as of the date of filing of this document as follows.

<External Issues>

- In Japan, our main market, the market size is shrinking more than expected, mainly in the new housing market, due to factors such as population decline and aging.
- Demand is growing in specific markets and regions, such as metropolitan areas where there are demands for inbound and offices, and rural areas where new factories for semiconductors, etc. are to be built.
- Demand for merchandise that contribute to solving social issues such as environmentally friendly products is increasing.
- Continuously increasing shortages of workers in manufacturing, logistics, and construction, as well as rising costs for materials, logistics, labor, etc.

<Internal Issues>

- While revenue in the Domestic Interior Segment is steadily expanding, contributions to earnings from the Domestic Exterior and Overseas Segments remain limited.
- There is a shortage of specialized personnel in the three businesses of overseas, exterior, and space solutions.
- Expansion of a product portfolio that constitutes space, following wall coverings and flooring materials, is insufficient.
- Increased selling, general and administrative expenses, including those of Group companies, are ahead of their contribution to earnings.

We recognize that strengthening human capital and digital capital are most important to fundamentally resolve these external and internal issues, and we will develop further measures based on the Long-term Vision and the Medium-term Business Plan.

3. Materiality

In the new Corporate Philosophy formulated in 2024, the Group has stated that it will realize both economic and social value related to “spaces” through our corporate activities. To realize this, it is necessary to transform the business model by upgrading and adding capital that is currently lacking in the management capital. Through this transformation, we believe that achieving social contributions by addressing the resolution of various social issues will lead to further enhancement of corporate value.

Currently, based on such approaches, changes in the business environment, and continuous dialogue with stakeholders, we are reviewing key issues that will lead to the creation of economic and social value, with a view to the Long-term Vision.

ESG Item		Materiality (key issues)	Social Values to realize in the Long-term Vision			SDGs that Sangetsu Group aims to contribute to
			Inclusive	Sustainable	Enjoyable	SDGs Items
Environment	Environment	Environmental impact of business activities (GHG, energy, waste)		●		11, 12, 13, 17
		Environmental impact of supply chain (GHG, waste)		●		
		Development of long-life products		●		
		Recycling of sample books		●		
Social	Social Capital	Product safety	●	●	●	4, 5, 8, 11, 12, 17
		Stability of quality	●	●	●	
		Stability of supply in procurement	●	●	●	
		Stability of supply in terms of orders, inventory, shipping, and delivery	●	●	●	
		Community engagement	●			
		Protection of personal information and data security	●	●	●	4, 5, 8
		Securing interior finishing capabilities	●	●	●	
		Creation of joyful designs and protection of intellectual property			●	
		Providing the joy of design			●	
		Appropriate balance between services and prices	●	●	●	
	Human capital	Maintain and promote employee health and develop employees’ capabilities	●		●	3, 4, 5, 8
		Enhancing employee engagement	●		●	
		Diversity and inclusion for employees	●		●	
		Strengthening and sustaining frontline execution capabilities	●	●	●	
Governance	Governance	Corporate governance that is independent, objective, and transparent	●	●	●	16, 17
		Strengthening capabilities through a commitment to compliance	●	●	●	

4. Approach towards achieving the Long-term Vision

By achieving the vision through this approach, we aim to realize the following social values.

[Social Values Sangetsu Group Aims to Realize]
The Sangetsu Group will contribute to the realization of a society that is:

Inclusive:	A safe and comfortable society for everyone inclusive
Sustainable:	A sustainable society to maintain the global environment
Enjoyable:	A more affluent and enjoyable society

Quantitative targets

Fiscal year ended March 2030	Consolidated net sales	¥250.0 billion
	Consolidated operating income	¥27.0 billion

5. Future developments (next-generation businesses) for a Space Creation Company
The Company has confirmed the potential and effectiveness of this new business model through the efforts to transform into a "Space Creation Company" since 2020. As stated above, while the Domestic Interior Segment grew as planned, contributions to earnings from the Domestic Exterior and Overseas Segments remain limited at this point. In addition, the space solutions business in the Domestic Interior Segment has not grown within the originally anticipated timeframe. The Company will further advance the deepening and transforming of the core businesses currently under way, and strengthen the earnings base. At the same time, long-term growth cannot be achieved solely with existing assets, organizations, and business models. It is essential to explore and create next-generation businesses in order to prepare for future markets.
We aim to build business development that contributes to realizing the Corporate Philosophy in co-creation with our stakeholders, while identifying various possibilities in areas surrounding the current business domain and the creation of synergies with the competitive advantages of the Group.

5) Medium-term Business Plan (2023-2025) [BX 2025] *BX = Business Transformation

The Company achieved significant growth in profits in FY2022, the final year of the previous Medium-term Business Plan (2020-2022) [D.C.2022], driven by the solid positioning in the markets, continuous enhancement of various functions such as product planning and development, design, logistics, and construction, and the execution of growth investments, as well as the implementation of product price revisions three times during the period from 2021 to 2022.
The three-year period of the Medium-term Business Plan (2023-2025) [BX 2025], which ends in FY2025, will be a period for accelerating growth investment to further strengthen the earnings base and prepare for the next leap forward. FY2025 is the midpoint of the 10-year Long-term Vision [DESIGN 2030] launched in FY2020. Toward transforming into a Space

Creation Company, we will promptly implement various measures to deepen and transform the core businesses, including interior, and explore and build next-generation businesses.
The basic policy, measures, capital policy, and quantitative target of this Medium-term Business Plan (2023–2025) [BX 2025] are as follows.
Please note that, as announced on May 14, 2025, the Company has revised part of the quantitative targets for FY2025 (the fiscal year ending March 31, 2026), which is the final year of the Medium-term Business Plan. For details, please refer to "(3) Details of analysis and considerations regarding the status of operating results, etc., from management's perspective" and "(4) Objective indicators for determining the status of achievement of management policies, management strategies, and management targets" in "4. Management analysis of financial position, operating results, and cash flows."

(i) Basic Policy

Medium-term Business Plan (2023–2025)
[BX 2025]
Three years to prepare for the next leap forward

Strengthen and expand solution capabilities to enhance the value of space creation, transform into a Space Creation Company with strong profitability and growth potential, expand products, and expand exterior and overseas businesses, in addition to business expansion in major products and markets.
In addition, the Group will also consider the possibility of next-generation businesses including the space operation in order to develop a business that will allow for further long-term growth.

(ii) Measures

For the progress of each measure for the fiscal year ended March 31, 2025, an explanatory video and documents are available on the Company's website.

https://www.sangetsu.co.jp/company/ir/library/briefing_report.html

Please also refer to "2. Approach and initiatives for sustainability" for some of the progress related to "Supporting expansion, advancement, and active utilization of human capital" and "Enhancing social value."

(iii) Capital policy

<Shareholder return policy>

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

<Fund allocation plan>

Fund generation during the Medium-term Business Plan	
Cash equivalents held as of the end of March 2023	¥27.0 billion
Operating cash flow in 3 years	¥47.0 to ¥51.0 billion
Change in debts in 3 years	¥(8.0) to ¥6.0 billion

Fund allocation	
Growth investment	¥20.0 to ¥25.0 billion
Shareholder Return	¥25.0 to ¥35.0 billion
Cash equivalents held as of the end of March 2026	¥20.0 to ¥25.0 billion

(iv) Quantitative target (targets for FY2025 (the fiscal year ending March 31, 2026))

<Economic value>

	Unit	Target	FY2023 results	FY2024 results
(i) Consolidated net sales	Billions of yen	210.0	189.8	200.3
(ii) Consolidated operating profit	Billions of yen	19.0	19.1	18.1
(iii) Consolidated net profit	Billions of yen	13.0	14.2	12.5
(iv) ROE	%	11.5	14.1	11.4
(v) ROIC	%	14.0	14.8	13.7
(vi) CCC	Days	70.0	71.5	72.0

In the "Notification on the Revisions of Targets in the Medium-Term Business Plan" announced on May 14, 2025, some of the targets have been revised.

<Social value>

(i) Global environment

Reducing environmental impact in business activities (Scope 1 & 2)

	Unit	Scope	Target	FY2023 results	FY2024 results
GHG emissions	t-CO2e	Consolidated	28% reduction from FY2021	26,836 (11.9% reduction)	23,592 (22.6% reduction)
GHG emissions	t-CO2e	Non-consolidated	60% reduction from FY2018	4,871 (40.0% reduction)	4,057 (50.0% reduction)
Energy consumption	GJ	Non-consolidated	6% reduction from FY2018	121,626 (17.9% reduction)	117,339 (20.8% reduction)
Recycling rate (effective utilization rate)	%	Non-consolidated	90% or higher	74.5	84.1

FY2024 results are preliminary figures. The official figures for GHG emissions (consolidated and non-consolidated) and energy consumption (non-consolidated) will be disclosed on the Company's website after third-party certification has been obtained.

(ii) Human Capital

Employee health and skill development, culture reform

	Unit	Scope	Target	FY2023 results	FY2024 results
Ratio of non-smokers	%	Non-consolidated	85% or higher	79.1	78.6
Investment in human capital	Millions of yen	Non-consolidated	¥700 million in 3 years	230	270
No. of mid-career workers hired	Person	Non-consolidated	60 to 80 in 3 years	49	39
Engagement score (*)	–	Non-consolidated	58.0 (A)	53.7 (BB)	57.7 (BBB)

* From fiscal 2023 onwards, we will use scores from Motivation Cloud, a service provided by Link and Motivation Inc.

(iii) Promotion of diversity, equity, and inclusion

	Unit	Scope	Target	FY2023 results	FY2024 results
Ratio of female managers *1	%	Non-consolidated	25% or higher (as of April 2026)	21.2	22.8
Ratio of employees with disabilities	%	Non-consolidated	4% or higher (as of March 31, 2026)	3.5	3.2
Ratio of male employees taking childcare leave *2	%	Non-consolidated	2 weeks or longer: 100%	2 weeks or longer: 100%	2 weeks or longer: 100%

*1 Calculations are based on the figures as of April 1 each year to take into account the timing of personnel changes.
*2 The ratio of men taking childcare leave for two weeks or more includes those who plan to take leave until their child turns one year old.

(iv) Social Capital
Community engagement

	Unit	Scope	Target	FY2023 results	FY2024 results
Renovation of children's care homes	Case	Consolidated	50 cases/ year	59	55
Matching gift	S-mile (*)	Consolidated	18,000	13,238	18,289
Costs for social contribution, including donation to external groups	Thou-sands of yen	Consolidated	We target to spend around 0.3-0.5% of annual ordinary income for social contribution activities. In case of donation, we plan to donate to specific groups continuously.	43,985	32,234

* The "Sangetsu Group Matching Gift Program," aiming to promote social contribution activities, provides employees with smile points (S-mile) for their engagement in such social contribution activities that are converted into monetary donations to organizations such as NPOs, etc. supported by the Company. Standard activities are individual activities outside the company such as support for welfare facilities, support for disaster victims, international exchanges, community activities, youth education, NPO support, etc., in addition to company-initiated activities in the "Sangetsu Group volunteer club," and the Company supports these activities to ensure that employees nationwide can participate regardless of region.

For details of the Medium-term Business Plan (2023–2025) [BX 2025], an explanatory video and documents are available on the Company's website.

https://www.sangetsu.co.jp/english/ir/management/medium_term_plan.html

(2) Management strategies, management environment, priority business and financial issues to be addressed

(Outlook for the next fiscal year in the management environment)

In the next fiscal year, the global economy is expected to remain uncertain, as we will need to closely monitor the rising geopolitical risks caused by the US tariff policy, changes in demand in each region due to factors such as exchange rate fluctuations and monetary policy, and the impact on energy and raw material prices and procurement costs.

For the Japanese construction markets, which has the greatest impact on the Company's businesses, this is expected to remain weak compared to the same period of the previous year, particularly in the housing market, due to factors such as high construction costs and labor shortages suppressing housing demand, resulting in continued sluggishness in new housing starts and floor area. In the non-housing market, although we cannot expect a strong growth in new construction demand, growth factors are anticipated in segments such as hotels and accommodation facilities boosted by inbound demand, and the office renovation market.

In such business environment, the Group will further strengthen the four functions of proposals of space designs, a space material supply, inventory, delivery, and logistics, and construction, which constitute the Group's competitive advantage. In addition, the Group will expand activities for proposing solutions appropriate for the market and customers, backed by the integration of the four functions, and will further enhance its market positioning by introducing products and services that address market needs and social issues based on the market. We will also accelerate investment in human capital, which is fundamental to the value creation of the Group, and strategic investment for transformation and growth.

In terms of profitability, we expect continued increases in the cost for materials and logistics, as well as rises in selling, general and administrative expenses, including personnel expenses. However, we plan to offset these cost increases through the full effect of the price revisions implemented in December 2024 for the Domestic Interior Segment, as well as cost control measures based on careful consideration of priorities and investment effectiveness.

In addition, due to the impact of a fire at the factory of one of the Company's suppliers, orders for certain flooring material products have been suspended since February 2025. We are currently working to rebuild the supply system through alternative production, etc., and expect to restart sales step by step from around the second quarter of FY2025.

In the Overseas Segment, which has been recording operating losses, we will implement the following measures in each region with the aim of turning the segment toward profitability and generating earnings in the next fiscal year and thereafter.

In North America, where the trend of increased revenue and profits has been established, the market environment is expected to remain strong, particularly in the mainstay hotel sector. We anticipate an increase in revenue and profits compared to FY2024 through the acquisition of projects such as major hotel chains and large-scale properties, as well as the promotion of cost reduction activities at production sites. Based on the business foundation that is becoming increasingly stable, we will promote growth investments aimed at expanding the product portfolio and business scale, etc.

On the other hand, for the wholesale business of interior merchandise in Southeast Asia, China and Hong Kong, we are restructuring the business foundation by reforming the management structure and reviewing the organizational structure and cost structure. In addition, in the design and construction business in Singapore, which we joined in FY2024, profit contributions from stable orders will be reflected in the full fiscal year, and we will strive to create synergies with the wholesale business and strengthen cooperation with other companies as a trigger for the space solutions business in the Group.

For the Domestic Exterior Segment, which experienced stagnant earnings in FY2023 and FY2024, earnings are expected to recover in the next fiscal year as the expansion of regions and domains, for which investments were made in advance, begins to take effect.

(Medium-term outlook in the management environment)

Within the time frame centered on the Long-term Vision [DESIGN 2030], as for the domestic business environment, demand for offices and hotels is expected to remain firm, while demand for housing, which is particularly affected by population decline and rising construction costs, is expected to weaken. Compared to the management environment assumed when the Long-term Vision was formulated, labor shortages due to population decline, aging, etc. and the continued rise in costs for materials, logistics, labor, etc. have become even more significant, and we strongly recognize these as priority issues to be addressed by the Group.

Under these circumstances, in the Domestic Interior Segment, we will execute organic and inorganic strategies to enhance the four functions with competitive advantages, expand the product portfolio to capture new growth opportunities, and strengthen the foundation of the space solutions business.

In the Domestic Exterior Segment, we will quickly convert the geographical expansion and business domain expansion we have implemented over the past few years into earnings, while also promoting the creation of synergies in interior and exterior as the Group as a whole.

In the Overseas Segment, we will establish and strengthen business models suited to market characteristics and market needs in each region, while also horizontally expanding and localizing the various functions of the Group to establish a business foundation and promote growth strategies.

The Group will promote deepening and transforming the four core businesses of interior, exterior, overseas, and space solutions, and will explore and create next-generation businesses in preparation for future markets. Through these efforts, we will transform into a "Space Creation Company" and aim for sustainable growth.

2. Approach and initiatives for sustainability

The Group's approach and initiatives for sustainability are as follows.

Please note that matters concerning the future in this article were determined by the Group as of March 31, 2025.

1. Basic approach and initiatives for overall sustainability

Since its founding, the Group has been developing businesses centered on interior materials. While expanding the range of its products to include wallpaper, flooring materials, and fabrics, it has continued to take on the challenge as a total interior company. These corporate activities are rooted in our vision to "contribute to the development of society by improving Japanese interiors and enriching people's lives through the business," which is the founding philosophy of the Group. Currently, we have reorganized this vision with a view to the entire Group, and incorporated the approach that the economic value created is actively utilized to create the next social value, and the sustainable growth of society and companies is pursued within that cycle, into the Corporate Philosophy, Long-term Vision, and Materiality. Going forward, we will systematically and proactively promote corporate activities that resolve social issues, and aim for sustainable growth.

(1) Governance

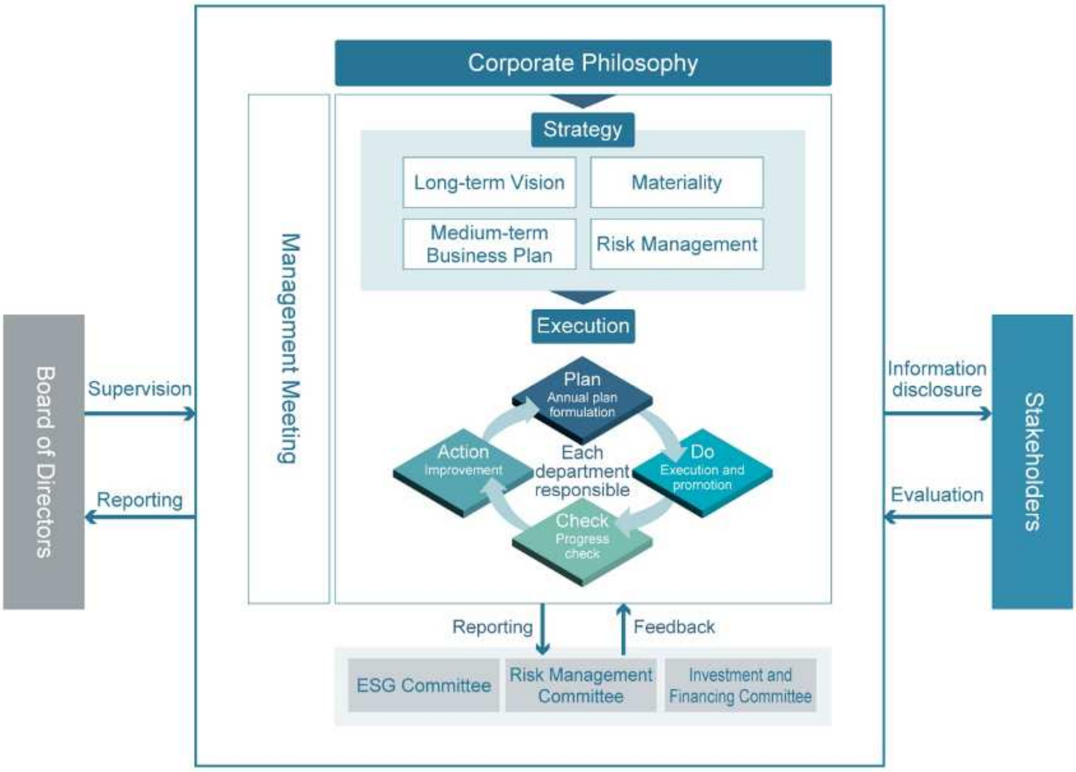
The Group has established a management system to manage and promote the effective supervision and execution roles related to sustainability issues to achieve sustainable growth. This system aims to ensure the disciplined implementation of sustainability measures from a medium- to long-term perspective based on each strategy formulated to realize the Corporate Philosophy.

The elements of the Company's sustainability strategy mainly include the Long-term Vision, Medium-term Business Plan, materiality, and risk management. For the implementation of each element, the relevant departments responsible conduct PDCA cycles. In addition, progress and issues related to initiatives are discussed and reported mainly at the Management Meeting attended by Executive Officers, and follow-up on activities across the entire company is conducted. Furthermore, for materiality, which is particularly important in sustainability measures, we regularly report to the ESG Committee and report on risk management to the Company-wide Risk Management Committee. We have established a system to deepen discussions and receive feedback through each committee. This enables us to improve initiative details and processes and work to resolve issues based on higher standards.

These activities and results are reported to the Board of Directors, which supervises their progress. In addition, the Company actively discloses information to stakeholders, including shareholders and investors, collects and analyzes their evaluations, and feeds them back into the company to incorporate diverse perspectives into management and foster an internal awareness for improving and expanding the disclosure of information.

Through the above management system, the Group addresses sustainability issues and strives to achieve sustainable growth.

Management system related to sustainability



■ Corporate bodies that handle sustainability-related matters

<Management Meeting>

The Company has established the Management Meeting as a supporting body that conducts necessary deliberations regarding the execution of business and assists in decision-making. The Management Meeting is composed of Executive Officers, Division Managers, and Full-Time Audit and Supervisory Committee Members. In principle, it is held once a month, and deliberations on medium to long term strategies, such as the Long-term Vision and Medium-term Business Plan, as well as confirmation of progress, are also treated as major agenda items.

<ESG Committee>

The Company has established the ESG Committee as a body to determine initiatives related to materiality and manage their progress. The committee promotes activities through five subcommittees (Governance, Human Capital, Social Capital, Social Contribution Activities, and Environment) based on the core issues identified in ISO 26000. Each subcommittee is made up of a wide range of members, including not only the department responsible for the issue but also the Corporate, Logistics, Business, Space Planning, and Global Business Divisions, as well as organizations directly reporting to the President & CEO, in order to increase the diversity of discussions. The ESG Committee sets initiative targets for each materiality and incorporates them into the business plans of each of the internal divisions that actually carry out operations. In addition, progress is managed through quarterly reporting on the status of the initiatives by the subcommittees, and discussions are held to resolve issues. In terms of organizational structure, the Committee is operated with the President & CEO serving as the chairperson, the Executive Officer in charge serving as the chief responsible person, and the inside Directors who are also Audit and Supervisory Committee Members also in attendance.

Reporting of the ESG Committee's activities to the Board of Directors involves a mechanism for reporting twice a year, and the minutes of ESG Committee meetings are also distributed to outside Directors. In this way, ESG activities are being carried out under the strong supervision of the Board of Directors.

<Company-wide Risk Management Committee>

The Company has established the Company-wide Risk Management Committee as one of the committees related to corporate governance to regularly identify risks in business activities, identify major risks, and strengthen risk management systems. The management items of this committee also include other risks related to sustainability, including materiality, and we are conducting more multifaceted management from each perspective. For details on the management details of this committee, please refer to "3. Business risks."

<Investment and Financing Committee>

In April 2025, the Company established the Investment and Financing Committee, which deliberates and follows up from various perspectives on investment and financing projects that are important for the growth strategy of the Group. Prior to the Management Meeting and the Board of Directors, the committee has begun activities as a body that thoroughly examines the strategic significance, economic feasibility, and risks of each investment and financing project, and deliberates on the feasibility of the projects.

(2) Strategy

Taking into account societal demands and important themes in the relevant industries, the Group has specified materialities in terms of their importance to society and long-term investors, and their impact on the sustainable growth of the business. These themes are also important items for realizing the Long-term Vision, and we are implementing the PDCA cycle in conjunction with our business plans.

The identified materiality is mapped based on their importance to society and long-term investors and their impact on the sustainable growth of the business (Table (1): Materiality map), and linked to the social value we aim to achieve in the Long-term Vision and the relevant SDGs (Table (2): Relationship between materiality, social value, and the SDGs). In addition, notable materiality is analyzed from the perspective of risks and opportunities, and measures are being taken to manage risks and create and seize the opportunities (Table (3): Risks and opportunities in materiality).

In conjunction with the formulation of the Corporate Philosophy, we are currently discussing the review and specification of the materiality, primarily through the ESG Committee that oversees the entire company, and will make an announcement about this.

The materiality specification process is as follows.

Table (1): Materiality map

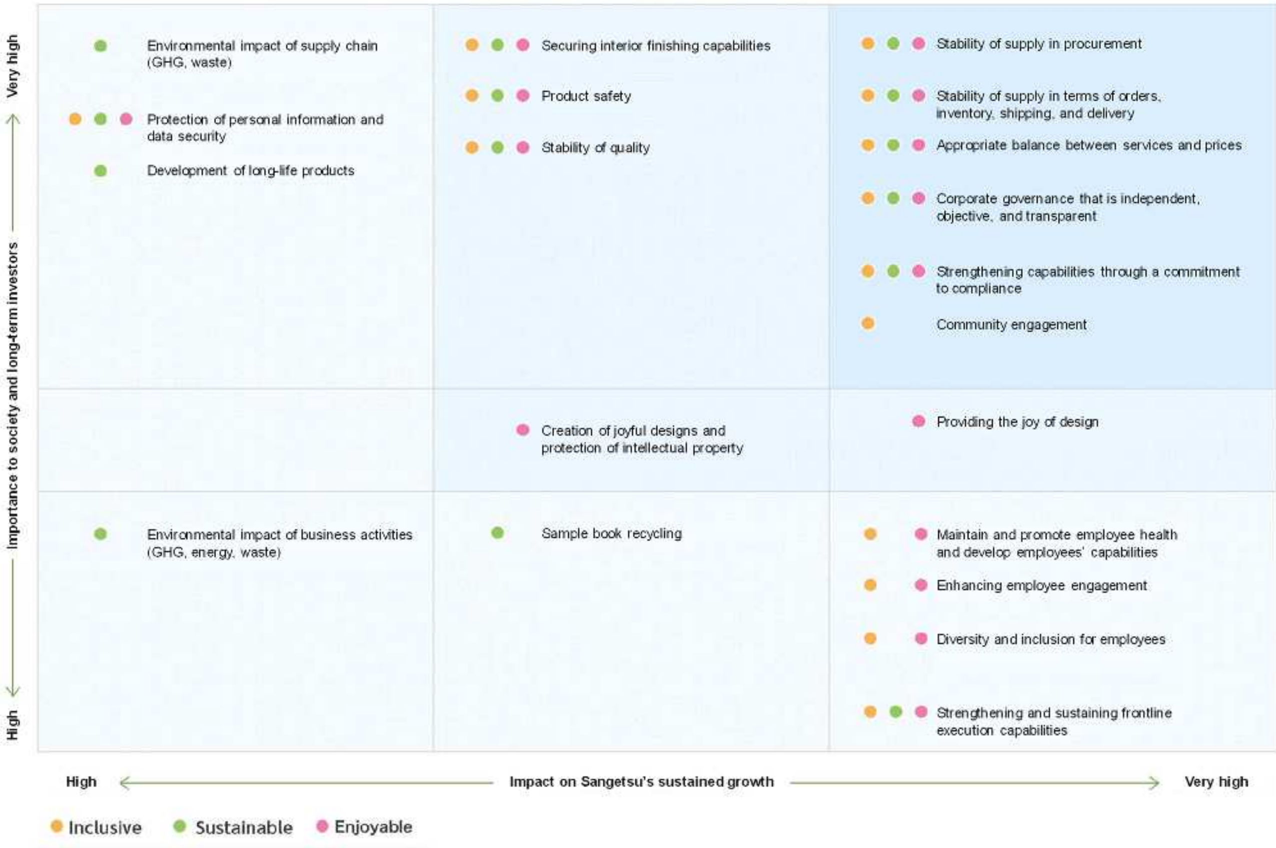


Table (2): Relationship between materiality, social value, and the SDGs

ESG Item		Materiality (key issues)	Social Values to realize in the Long-term Vision			SDGs that Sangetsu Group aims to contribute to
			Inclusive	Sustainable	Enjoyable	SDGs Items
Environment	Environment	Environmental impact of business activities (GHG, energy, waste)		●		11, 12, 13, 17
		Environmental impact of supply chain (GHG, waste)		●		
		Development of long-life products		●		
		Recycling of sample books		●		
Social	Social Capital	Product safety	●	●	●	4, 5, 8, 11, 12, 17
		Stability of quality	●	●	●	
		Stability of supply in procurement	●	●	●	
		Stability of supply in terms of orders, inventory, shipping, and delivery	●	●	●	
		Community engagement	●			
		Protection of personal information and data security	●	●	●	4, 5, 8
		Securing interior finishing capabilities	●	●	●	
		Creation of joyful designs and protection of intellectual property			●	
		Providing the joy of design			●	
		Appropriate balance between services and prices	●	●	●	
	Human capital	Maintain and promote employee health and develop employees' capabilities	●		●	3, 4, 5, 8
		Enhancing employee engagement	●		●	
		Diversity and inclusion for employees	●		●	
		Strengthening and sustaining frontline execution capabilities	●	●	●	
Governance	Governance	Corporate governance that is independent, objective, and transparent	●	●	●	16, 17
		Strengthening capabilities through a commitment to compliance	●	●	●	

Table (3): Risks and opportunities in materiality (extract)

Materiality	Risks	Opportunities
Stability of supply in procurement	• Decrease in sales and loss of customers when production and product delivery cannot be carried out as planned due to manufacturing equipment malfunctions or the effects of disasters, etc.	• Ensuring product supply and improving reliability through increased production capacity and strengthened BCP systems
Stability of quality	• Decreased reliability due to deterioration in quality • Pressure on earnings due to loss of customers and response to reinstallation work	• Improved reliability and increased orders through improved quality
Environmental impact of business activities (GHG, energy, waste)	• Rising purchase prices when government policy to curb climate change is introduced • Decreased needs and sales of finished goods with high environmental impact due to the expansion of ethical consumption that considers the environment	• Increased needs and sales of finished goods with low environmental impact due to the expansion of ethical consumption in consideration of the environment • Reduction of costs through energy conservation, waste reduction, and recycling
Providing the joy of design	• Decline in competitiveness and sales opportunities due to the inability to develop designs and products that meet customer and social needs	• Differentiation from competitors and expansion of sales opportunities through design and product development that meets the needs of customers and society
Enhancing employee engagement Maintain and promote employee health and develop employees' capabilities Diversity and inclusion for employees	• Decline in employee engagement and outflow of human resources, and difficulty in securing human resources due to lack of improvement in the work environment and organizational culture	• Improvement of employee engagement and securing of human resources through improvement of the working environment and organizational culture • Improvement of creativity and strengthening of competitiveness through the promotion of diversity and inclusion • Improvement of productivity through development of employee capabilities

■ Vision and status of initiatives regarding materiality (extract)

Subcommittee	Materiality	Vision	Initiatives and Topics
Environment	Environmental impact of business activities	• GHG emissions Consolidated: Scope 1 & 2 28% reduction in FY2025 (compared to FY2021) 55% reduction in FY2029 (compared to FY2021) Non-consolidated: Scope 1 & 2 60% reduction in FY2025 (compared to FY2018) Carbon neutrality in FY2029	• Implementation of self-consumption and self-delivery of electricity generated by solar power generation equipment • Promotion of energy conservation activities at manufacturing and logistics bases • Expansion of transition to renewable energy electricity plans • Purchase of electricity certificates
	Recycling of sample books	• FY2025 targets Recycling of all sales returns: 300,000 books	• Efficiency improvement in disassembly work

Subcommittee	Materiality	Vision	Initiatives and Topics
Human Capital	Maintain and promote employee health and develop employees' capabilities	• Respect equal opportunities for diverse employees regardless of their employment status, and establish systems to maintain a good working environment and support health maintenance and promotion	• Expansion of health checkup content • Implementation of women's health seminars and training on cancer • Development of digital human resources • Training for managerial personnel to promote BX • Expansion of internal internships
	Diversity and inclusion for employees	• Promote and maintain respect for human rights and diversity based on the Universal Declaration of Human Rights along with the globalization of the Group • Promote the expansion of job opportunities for employees with disabilities, maintain and improve the employment rate target of over 4%, and promote improvements in treatment and working conditions.	• Promote the expansion of job opportunities for employees with disabilities • Fostering a culture of shared parenting to increase male employees taking childcare leave • Signed the "GCNJ Collective Action 2030 Declaration" and declared an action plan
Social Capital	Stability of quality	• Reduction of product complaints • Changing mindsets to improve quality	• Implementation of quality meetings with suppliers • Sharing complaint cases internally and conducting complaint training for sales agents • Verification in actual situations through test marketing
	Stability of supply in procurement	• Understanding supply chain improvements • Formulation of procurement standards based on CSR procurement policy	• Conduct on-site visits and web conferences to provide feedback on self-assessment questionnaires (SAQs) and implement improvement proposals while confirming the status of responses to each question
Social Contribution Activities	Community engagement	• Support for children Renovation support for children's care homes: 50 cases Establishment and implementation of support methods for children's cafeterias and educational support • Matching gift: 18,000 S-mile	• Participation of Group companies, including overseas companies • Continuous support for organizations working to solve social issues • Launch of experiential learning on resource recycling utilizing sample books, which are the main sales tools
Governance	Corporate governance that is independent, objective, and transparent	• Establishment of a high-level governance system • Constructive dialogue with stakeholders	• Start of English disclosure of part of the Annual Securities Report
	Strengthening capabilities through a commitment to compliance	• Establish a system for compliance with laws and regulations throughout the entire Group and ensure thorough compliance	• Strengthening compliance support systems for Group companies • Conducting compliance surveys

(3) Risk management

The Company implements the PDCA cycle to improve the materiality listed in "(2) Strategy" through the activities of the ESG Committee. The initiatives of each subcommittee are evaluated through reviews by the ESG Committee four times a year, providing for continuous improvement and the revision and addition of issues.

In addition, the Company has established the Company-wide Risk Management Committee as one of the committees related to corporate governance to regularly identify risks in business activities, identify major risks, and strengthen risk management systems. The management items of this committee also include other risks related to sustainability, including materiality, and we are conducting more multifaceted management from each perspective. For details, please refer to "3. Business risks."

(4) Metrics and targets

As for metrics and targets related to sustainability, quantitative targets have been set in the current Medium-term Business Plan. Please refer to "1. Management policy, management environment, issues to be addressed, etc., 5) Medium-term Business Plan (2023-2025) [BX 2025]."

In addition to the metrics set out in the Medium-term Business Plan, we have also established detailed KPIs for each category of the environment (E), social (S), and governance(G) to manage our progress. Please see our website for further details.

"ESG Management" KPIs and results

https://www.sangetsu.co.jp/english/sustainability/management.html

(5) Other specific initiatives in FY2024

In order to fulfill corporate social responsibility through our corporate activities, the Sangetsu Group has positioned sustainability initiatives as one of the most important issues in an aim to achieve a sustainable society and company. Our main initiatives in FY2024 were as follows.

■ Environmental initiatives

The Group has prioritized the development of environmentally friendly products as one of its key issues. In FY2024, we have launched the sale of "biocloth," a wallpaper that reduces environmental impact by using plant-derived plasticizers and non-fluorinated water-repellent agents while maintaining the same workability as conventional PVC wallpaper. This product was awarded the GOOD DESIGN AWARD. In addition, we are accelerating efforts to address social issues by offering a wide range of environmentally friendly products that contribute to a decarbonized society and water resource conservation in the sample books. Furthermore, these initiatives are expanding not only in the field of interiors but also in exteriors. In March 2025, in partnership with the Misawa Homes Group, we announced the joint development of "Forest Wood™," an artificial wood deck made from 100% recycled raw materials that contributes to reducing the environmental impact across the entire supply chain. Regarding the GHG emissions reduction targets set forth in the Medium-term Business Plan [BX 2025], we are steadily advancing efforts throughout the entire supply chain. These efforts include the self-supply of renewable energy generated in-house and activities to reduce energy losses during equipment operation, carried out in collaboration with a group company CREANATE Inc., a vinyl wallpaper manufacturer.

■ Human capital management initiatives

Based on the quantitative targets in the social value section of the Medium-term Business Plan, the Company is implementing such measures as the promotion of health management and the active promotion of female managers, and we are working companywide to create a workplace environment in which employees can work comfortably and safely regardless of gender or age. Specifically, the "PARCs Sangetsu Group Creative Hub," a new value creation base, has obtained Gold level certification under the "WELL Building Standard™ v2," a global assessment standard for buildings that focuses on people's health and well-being. Furthermore, in recognition of our long-term efforts based on our Health Management Policy of "an enthusiastic workplace promoting health throughout life where employees can enjoy working," we have been certified as a "KENKO Investment for Health 2025" for the sixth consecutive year and the seventh time in total. In terms of "diversity, equity and inclusion," the Company has received the highest Gold certification for the second consecutive year in the "PRIDE Index 2024," an LGBTQ+ assessment standard, in recognition of various initiatives based on the Sangetsu Group Basic Policy on Diversity, Equity & Inclusion. The Group aims to achieve sustainable growth as a company by fostering the mutual enhancement of "employee happiness" and "corporate growth" through the strengthening of our human capital.

■ Social contribution initiatives

As some of our efforts in social contribution, we implemented continuous activities in which employees, including those from Group companies, can proactively participate, such as support for the interior renovation of children's care homes, which we have implemented since 2014, cooperation with NPOs that support children in developing countries, and participation in industry-university collaborative projects. Specifically, we have been actively engaged in social participation initiatives through collaboration with various stakeholders, leveraging our business as a starting point. These initiatives include the renovation of children's care homes in partnership with Habitat for Humanity Japan, which is a certified NPO and one of the ongoing support organizations, and co-creation projects with NOMURA Co., Ltd. that aim to resolve social issues through "spaces."

The Group will continue to work on resolving social issues through space creation, the core of its business, and aims at the goal of "with all people we collaborate to create peaceful and inspirational spaces" by continuing to create economic and social value.

2. Approach and initiatives for natural capital

The Company's business activities are closely connected to natural capital, such as the use of wood resources for our main product, wallpaper, and the use of fossil fuels in the manufacturing, distribution, and construction processes. We recognize that the conservation and restoration of natural capital is a critical key issue. In addition, in the construction industry, which is closely related to the Company's business, there is a growing need to select products that contribute to CO2 emissions reduction and resource recycling when selecting procurement items at the design stage. We recognize that addressing this issue is essential for improving long-term corporate value.

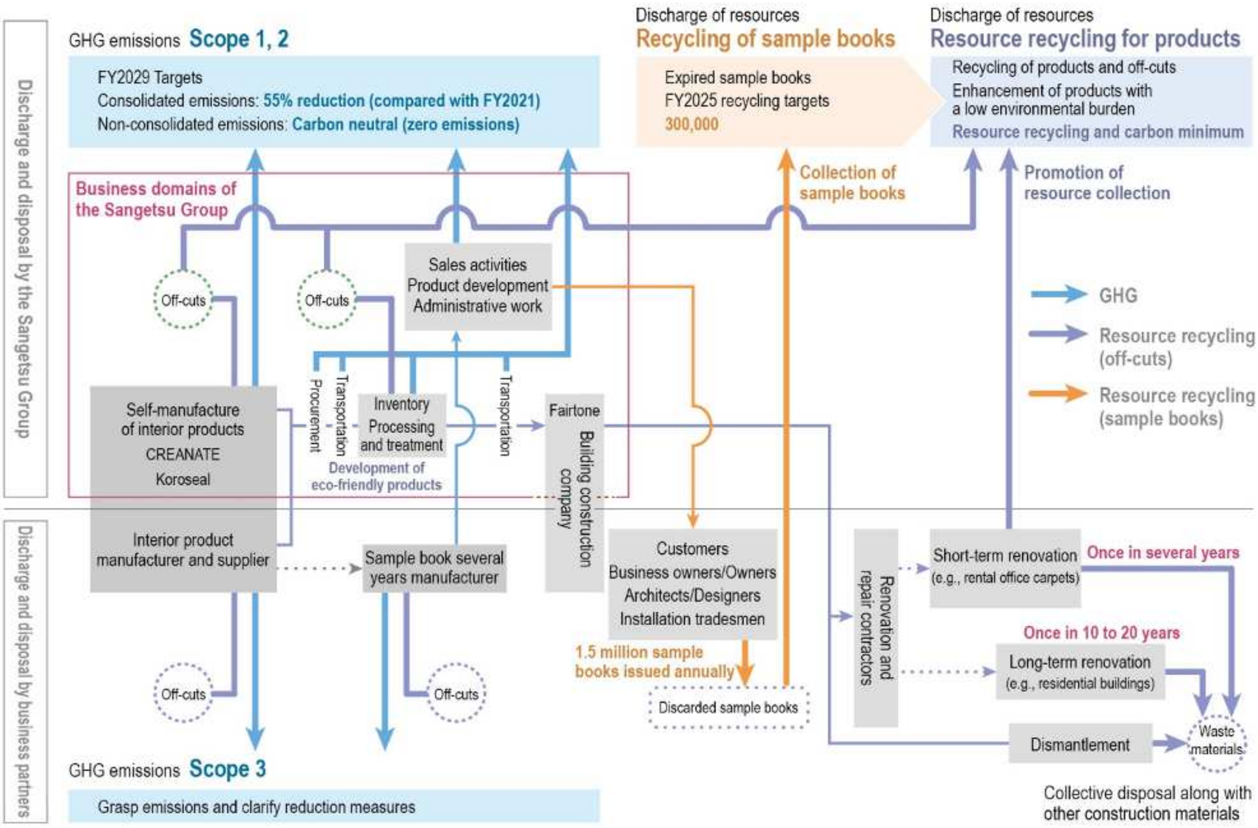
The Company is implementing various measures to address issues related to natural capital, focusing on climate change, resource recycling, and coexistence with nature. As these three are mutually influential, it is important to promote them in an integrated manner to achieve synergistic effects while avoiding trade-offs between each initiative. For example, it would not make sense to cut down trees, which are important natural capital for the Company, in order to install solar power generation systems.

Environmental issues are urgent challenges for society, and we will continue to strive to resolve these issues in various aspects of business activities, from product planning and development to manufacturing, procurement, proposals, delivery, construction, and disposal.

■ Status of environmental impact

As a company that creates value through "space," the Company believes initiatives for environmental conservation to be its natural responsibility to society, and we are mindful of not only reducing the environmental impact of our own business activities, but also conserving the global environment on a broader scale. In our business activities, environmental impact occurs in a variety of situations and locations, including GHG emissions and the disposal of products and sample books by the Group, as well as GHG emissions by business partners and used waste materials at construction sites. The Company assesses the state of environmental impact in each of these areas and is working to reduce it not only within the Company but also with the Group and business partners.

Environmental impact map

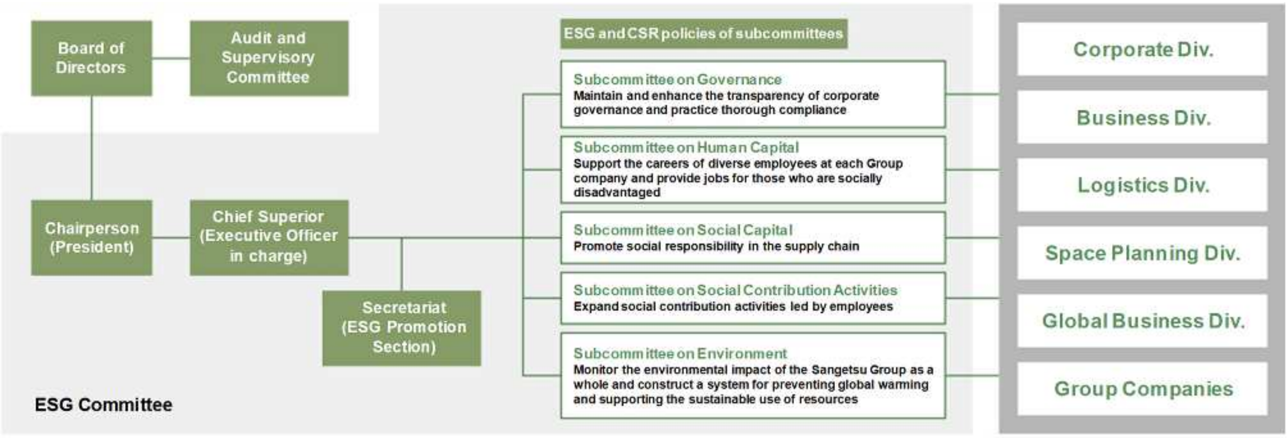


■ Governance concerning natural capital

The Subcommittee on Environment, which has been established under the ESG Committee chaired by the President & CEO, is responsible for addressing natural capital and is promoting initiatives regarding climate change and resource recycling. The Subcommittee on Environment consists of members from a variety of departments, including the ESG Promotion Section, which is responsible for planning and formulating environmental measures, the General Affairs Section, which is responsible for managing facilities and vehicles that use energy, the product units responsible for product development, the Logistics Division that operates the logistics centers, and the Business Division, which is responsible for sales. In response to materiality such as the environmental impact of GHG emissions from business activities, the Subcommittee has set targets for achieving carbon neutrality for the non-consolidated Company by FY2029, and a 55% reduction (compared to FY2021) for the consolidated Group by FY2029, and is working on measures such as formulating reduction plans and considering and implementing measures. The progress of these initiatives is reviewed quarterly, and the Board of Directors manages and supervises the progress status twice a year. The Board of Directors has set "Sustainability/ESG" as a required skill for Directors and has established a system to ensure that supervisory functions related to the environment, including climate change, are effectively exercised.

The Company has also acquired ISO 14001 certification. We have an ISO management officer who oversees the environmental management system, who is assisted by an ISO secretariat that has been established to assist in implementing environmental activities at each business location.

ESG Committee structure



I. Approach and initiatives for climate change

Climate change due to global warming is having various effects on human life and natural ecosystems. The main cause of global warming is greenhouse gases (“GHGs”), and we believe that reducing GHG emissions is the social responsibility of companies.

The GHGs emitted by the Group consist mainly of natural gas, city gas and kerosene used in factories, offices and warehouses, gasoline and diesel used in company vehicles, etc. (Scope 1), and GHGs originating from electricity (Scope 2). In order to reduce GHG emissions, it is necessary to use energy effectively, with as little waste as possible, and we believe that promoting energy use reduction will lead to the prevention of global warming and the effective use of the Earth’s resources. In addition, GHG emissions generated by the Company’s business activities consist of more than 90% of Scope 3 emissions, and we recognize the importance of reducing GHG emissions including those from the supply chain. In particular, we are working to reduce emissions by conducting energy surveys with suppliers and engaging with them in order to visualize the emissions situation in Category 1 (purchased products and services), which is more than 80% of the total.

(1) Governance

For information on governance regarding climate change, please refer to “2. Approach and initiatives for natural capital, Governance for natural capital.”

(2) Strategy

■ Adopted scenario

In order to respond to the uncertain future impacts of climate change, the Company has conducted scenario analysis as recommended by the TCFD. In selecting scenarios, in order to broadly consider the impacts of climate change, we selected the “1.5°C scenario,” in which transition risks are highest due to the introduction of climate policies, and the “4°C scenario,” in which physical risks increase without the introduction of climate policies under fossil fuel-dependent development. In addition, the scope of business was defined as Sangetsu’s non-consolidated Domestic Interior Segment, which comprises 80% of the Group’s sales, and the analysis time frame was set until 2030, which is the target period of the Long-term Vision [DESIGN 2030].

Going forward, we will work to further expand the scope of business, improve the comprehensiveness of risks and opportunities, and refine scenario analysis.

Estimated rise in temperature	Adopted scenario	Reason for adoption	Scope of business	Analysis time frame
1.5°C	SSP1-1.9	This scenario is consistent with Japan’s 2050 net-zero (1.5°C target) target, which constitutes the majority of the Group’s business, and involves high transition risks.	Sangetsu’s non-consolidated Domestic Interior Segment ・Wall coverings ・Flooring materials ・Fabric	Until 2030
4°C	SSP5-8.5	In order to assume the most extreme situation, the scenario with the greatest physical impact was adopted.		

SSP: Shared Socioeconomic Pathways

■ Risks and opportunities

Item		Description	Financial impact*	
			1.5℃	4℃
Transition risks	Legal regulations	◆ GHG emission regulations • Expansion of carbon tax will increase costs according to GHG emissions.	Low	
	Market	◆ Changes in consumer behavior • The expansion of ethical consumption that considers the environment will reduce the need for products with high CO2 emissions during production and low energy conservation during use, resulting in a decrease in sales.	Moderate	
		◆ Increase in purchase costs • Purchase costs will increase due to the impact of the introduction of a carbon tax on suppliers and increased development costs for decarbonized products.	High	
		◆ Increase in offset costs • Offset costs will increase as demand for carbon credits and power certificates rises toward the achievement of carbon neutrality by individual companies.	Low	
Physical risks	Acute	◆ Suspension of supply functions • Intensifying natural disasters such as typhoons and sudden heavy rains (flooding, inundation, strong winds) may prevent us from delivering products on schedule.		Low
		◆ Increases in repair costs for owned facilities and costs for BCP measures • Intensifying natural disasters such as typhoons and sudden heavy rains (flooding, inundation, strong winds) will cause damage to owned facilities and increase the cost of repairs. • Costs for BCP measures, such as repairing owned facilities in preparation for intensifying natural disasters and ensuring that other bases can cover for a base whose supply functions are suspended, will increase.		Low
Opportunities	Products	◆ Increase in sales of environmentally friendly products • Orders from customers aiming to reduce Scope 3 emissions and those with high environmental awareness will increase by expanding the lineup of CO2-free products during production.	High	

* Degree of financial impact: Low (less than ¥1 billion), Moderate (¥1 billion to less than ¥5 billion), High (¥5 billion or more)

■ Results of scenario analysis

In the future, regardless of which scenario analyzed this time becomes a reality, we will implement measures derived from the analysis results to respond to the situation and achieve sustainable growth.

Scenario	Analysis results	Measures
1.5℃	• It was found that the risk of increased purchase costs due to the introduction of a carbon tax is significant, and that the impact of sales losses for products with high environmental impact during production and use due to changes in consumer behavior is also significant. • On the other hand, it was estimated that the impact of increased sales due to the expansion of the lineup of environmentally friendly products will be significant.	• Promotion of initiatives for energy conservation and energy generation • Reduction of GHG emissions in collaboration with suppliers • Expanding sales of environmentally friendly products
4℃	• It was estimated that there are risks of supply disruptions and increases in costs for repairing owned facilities and BCP measures due to typhoons and sudden heavy rains caused by rising temperatures, although these risks are small.	• Establishment of BCP system (Implementation of disaster countermeasures for buildings, strengthening risk management in the supply chain including diversification of raw material suppliers)

(3) Risk management

The Company identifies climate change as materiality and implements the PDCA cycle to improve them through the activities of the ESG Committee. The initiatives of each subcommittee are evaluated through reviews by the ESG Committee four times a year, providing for continuous improvement and the revision and addition of issues.

In addition, the Company has established the Company-wide Risk Management Committee as one of the committees related to corporate governance to regularly identify risks in business activities, identify major risks, and strengthen risk management systems. Climate change risk is treated as a main risk in the risk management systems. For details, please refer to "3. Business risks."

(4) Metrics and targets

The Company has set quantitative targets for reducing the environmental impact of business activities (Scope 1 & 2) and has been working to achieve them. The targets and trends in results up until FY2024 are as follows.

Target

Metrics	Scope	FY2025 Targets	FY2029 Targets
GHG emissions (Scope 1 & 2)	Consolidated	28% reduction (compared to FY2021)	55% reduction (compared to FY2021)
	Non-consolidated	60% reduction (compared to FY2018)	Carbon neutrality
Energy consumption	Consolidated	4% reduction (compared to FY2021)	–
	Non-consolidated	6% reduction (compared to FY2018)	–

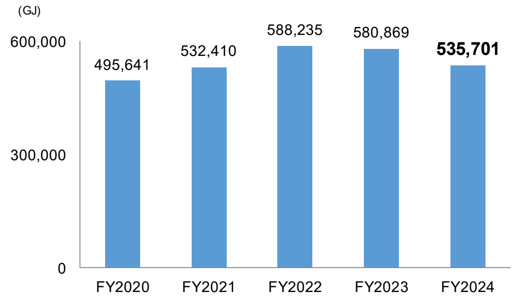
Trends in results

Metrics	Unit	Scope	FY2020	FY2021	FY2022	FY2023	FY2024*
GHG emissions (Scope 1 & 2)	t-CO2e	Consolidated	28,071	30,477	29,679	26,836	23,592
		Non-consolidated	6,233	5,992	5,668	4,871	4,057
Energy consumption	GJ	Consolidated	495,641	532,410	588,235	580,869	535,701
		Non-consolidated	141,259	133,264	129,067	121,626	117,339

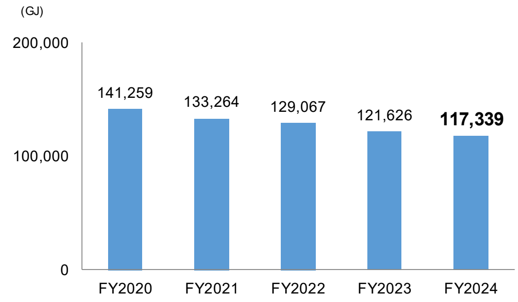
* FY2024 results are preliminary figures. The official figures will be disclosed on the Company's website after third-party certification has been obtained.

GHG emissions (Scope 1 & 2) (Consolidated)

GHG emissions (Scope 1 & 2) (Non-consolidated)



Energy consumption (Consolidated)



Energy consumption (Non-consolidated)

For details on the Company's climate change initiatives and results, please refer to the Company's website.
https://www.sangetsu.co.jp/company/sustainability/environment/climatechange.html

II. Approach and initiatives for resource recycling

In addition to global population growth, the pursuit of economic development and convenience is accelerating the pace of resource consumption. To mitigate the risk of resource depletion, it is important to promote initiatives for resource recycling. While continuing to minimize waste and emissions, which we have been working on, the Company is strengthening initiatives for resource recycling, such as promoting the use of recycled materials and expanding environmentally friendly products that are easy to recycle.

Polyvinyl chloride (PVC), one of the main materials used in the Company's products, is widely used in the construction industry as a material that combines excellent workability, durability, and economic efficiency. However, it is difficult to recycle as it is used in composite materials. The recycling of PVC is an issue not only for the Company but also for the entire industry, and we will promote initiatives in cooperation with material manufacturers and recycling operators.

(1) Governance

For information on governance regarding resource recycling, please refer to "2. Approach and initiatives for natural capital, Governance for natural capital."

(2) Strategy

■ Risks and opportunities related to resource recycling

Category	Risks	Opportunities
Materials	• Pressure on earnings due to restrictions on the use of plastics, a main raw material for wallpaper and flooring materials	• Increase in sales and improvement of brand image through the promotion of using recycled materials and the expansion of environmentally friendly products that are easy to recycle
Waste	• Increase in disposal costs and damage to brand image due to slow progress in waste reduction • Increase in disposal costs due to a shortage of waste disposal sites	• Decrease in disposal costs and improvement of brand image due to progress in waste reduction

■ Recycling of sample books

The Company's sample book is an important business tool that enables customers to efficiently select from approximately 12,000 diverse products. However, approximately 1.5 million copies are published annually, and used sample books are disposed of in various locations without being recycled. As a solution to this environmental impact, we are recycling sample books. At the "Sample Book Recycling Centers" established in March 2021, we sort sample books, which contain a variety of materials, and process resource recycling as materials recycling. The number of sample books recycled in FY2024 was approximately 55,000. In addition, the centers employ people with disabilities as workers in recycling of sample books, thereby supporting them to play an active role in a workplace. Going forward, we will promote collaboration with related business operators to further improve work efficiency and promote material recycling (*) of paper and PVC.

* Material recycling: A recycling method in which waste material is reused as material for the same or a different product.

■ Curtain recycling

As part of initiatives for environmental conservation, the Company has been promoting the "Sangetsu Curtain Eco Project" since October 2000. Curtains with dedicated tag labels shall be collected by the Company, and from the perspective of resource recycling, they are reborn as raw materials for products.

(3) Risk management

The Company identifies resource recycling as materiality and implements the PDCA cycle to improve them through the activities of the ESG Committee. The initiatives of each subcommittee are evaluated through reviews by the ESG Committee four times a year, providing for continuous improvement and the revision and addition of issues.

The Subcommittee on Environment, which tackles environmental themes including resource recycling, has set the following as materiality: (1) the environmental impact of business activities, (2) the environmental impact of the supply chain, and (3) the recycling of sample books. The Subcommittee aims to ascertain the environmental impact of the entire Group's business and build a system for preventing global warming and the sustainable recycling of resources.

(4) Metrics and targets

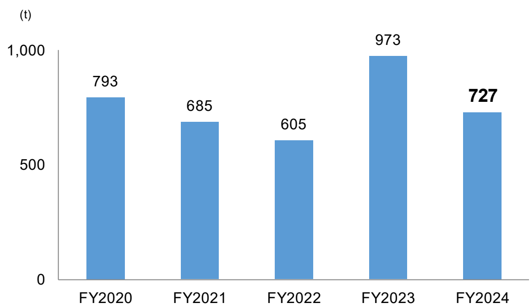
The Company has set quantitative targets related to resource recycling and is working to achieve them. The targets and trends in results up until FY2024 are as follows.

• FY2025 targets (non-consolidated)

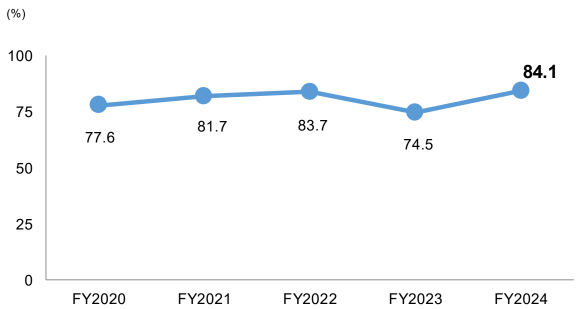
	Target
Total volume of disposed waste (simple incineration and landfill disposal)	4% reduction (compared to FY2021)
Recycling rate (effective utilization rate)	90% or higher

• Results (non-consolidated)

	Unit	FY2020	FY2021	FY2022	FY2023	FY2024
Total volume of disposed waste (simple incineration and landfill disposal)	t	793	685	605	973	727
Recycling rate	%	77.6	81.7	83.7	74.5	84.1



Total volume of disposed waste
(simple incineration and landfill disposal) (Non-consolidated)



Recycling rate (Non-consolidated)

3. Approach and initiatives for human capital

The Group has set "strengthening human capital" as an important measure for enhancing sustainable corporate value, and is implementing proactive and systematic investment and strengthening measures. The "strengthening of human capital" promoted by the Company aims to achieve sustainable growth as a company through the interaction between "employee happiness" and "company growth." The foundation for realizing this interaction is the "motivation of each and every employee to grow." In strengthening human capital, we will expand mid-career recruits and support employees' motivation to grow through "growth and performance support programs" and "developing an environment where employees can demonstrate their abilities," thereby maximizing the power of both individuals and organizations.

(1) Governance

Initiatives for human capital are mainly implemented by the Human Resources Department and organizational in-charge person. This situation is continuously monitored and evaluated by the Subcommittee on Human Capital of the ESG Committee, which is centered on the Board of Directors and the President & CEO. For information on the ESG Committee structure, please refer to the ESG Committee structure in "2. Approach and initiatives for natural capital, Governance for natural capital."

(2) Risk management

The Company identifies materialities and implements the PDCA cycle to improve them through the activities of the ESG Committee. The initiatives of each subcommittee are evaluated through reviews by the ESG Committee four times a year, providing for continuous improvement and the revision and addition of issues.

In particular, the Subcommittee on Human Capital, which addresses themes related to human capital, has identified the following issues: (1) employee health and skills development, (2) improving employee engagement, and (3) employee DE&I. In the identification of these issues, guidelines set by organizations such as the GRI and SASB were referred to and the ESG issues that are particularly relevant to the Company were identified and evaluated based on their importance to society and long-term investors, as well as their impact on the sustainable growth of our business. The progress of materiality including human capital is reviewed by the ESG Committee on a quarterly basis.

(3) Strategy

Based on this basic approach stated at the beginning of “3. Approach and initiatives for human capital,” our basic strategy for achieving the Long-term Vision positions “diverse human capital” as a foundation of management and business, and the Medium-term Business Plan (2023–2025) [BX 2025] sets forth “supporting expansion, advancement, and active utilization of human capital” as the most important measure among the five measures for transforming into a Space Creation Company.

Approach towards achieving the Long-term Vision

Measures in the Medium-term Business Plan (2023–2025) [BX 2025]

1 Supporting expansion, advancement, and active utilization of human capital

(1) Allocating HR personnel for each organization
(2) Significantly increasing diverse mid-career hires and recruitment of new graduates
(3) Improving education and training to strengthen expertise and business-building capabilities
(4) Improving working conditions and environment
(5) Improving the ratio of part-timers and promoting diversity

2 Accumulation, analysis, and utilization of digital capital

(1) Renovating core systems for business model transformation
(2) Promoting the utilization of information and data for value chain transformation, including spatial design proposals
(3) Improving efficiency and stability of sales and logistics through the utilization of commercial and logistics data in collaboration with distributors
(4) Improving operations and promoting digitization of on-site operations

3 Strengthening the ability to provide solutions

(1) Strengthening space design and space proposing capabilities specialized for each market
(2) Expanding and improving the product lineup and strengthening brand development
(3) Developing and strengthening the product procurement system
(4) Geographically and functionally expanding and strengthening the logistics system
(5) Developing large-scale, swift interior installation resources and a construction management system

4 Exterior and Overseas Businesses

(1) Expanding the scale and target area of the exterior business and advancing it
(2) Strengthening product and space design capabilities, developing a quick-delivery system, strengthening construction support capabilities, and establishing a sales system tuned to market needs in order to transform the overseas business into a space creation business

5 Enhancing social value

(1) Reducing consolidated and non-consolidated GHG (Scopes 1 & 2) emissions
(2) Grasping GHG (Scope 3) emissions and clarifying reduction measures
(3) Strengthening development of products with low environmental burdens
(4) Promoting recycling, including expansion of Sample Book Recycling Centers
(5) Promoting diversity, equity, and inclusion
(6) Promoting activities to improve the living environment of orphanages
(7) Providing continuous support for children in need, developing countries, and refugees

For the progress of each measure for the fiscal year ended March 31, 2025, an explanatory video and documents are available on the Company's website.

https://www.sangetsu.co.jp/company/ir/library/briefing_report.html

1) Human resource development

Human resource development policy

We respect employees who take on the challenge of self-improvement and provide opportunities for growth, active participation, and self-actualization.

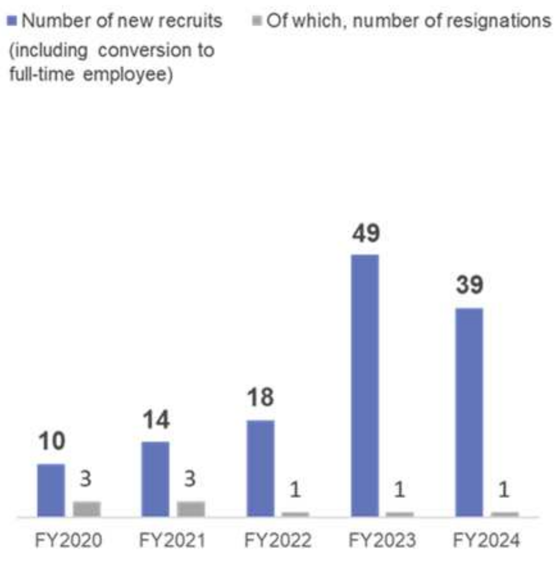
- Provide educational opportunities that promote employees' life planning and growth
- By expanding promotions and granting them earlier, employees will gain experience in the field and future managers and executives will be developed
- We assign personnel in a planned manner so they gain experience in a variety of roles and generate vitality

(i) Mid-career recruits

The Group believes that personnel with highly specialized skills are essential to realize the "BX: Business Transformation" outlined in the Medium-term Business Plan (2023–2025). We recognize that there are two types of specialized skills: external knowledge that should be actively incorporated, and knowledge of the industry, business flow, and merchandise that is cultivated through long experience within the Group. Both of these skills are essential to realize to transform into a Space Creation Company, and we hope to develop new skills and the corporate culture within the Company by enhancing the capabilities of both external and existing talent and supporting their active participation. By incorporating diverse external perspectives into each workplace, we are fostering a corporate culture that promotes innovation and transformation of business models, and strengthening a culture and climate in which employees change their own work and take on new challenges, rather than just doing the work that is assigned to them. In addition, the personnel system reforms implemented in FY2022 have established a system that enables treatment based on job duties not only for "management-type" employees who possess organizational management capabilities and management skills, but also for "professional-type" employees who demonstrate highly specialized capabilities. This system contributes to the development of specialized human resources within the Company and the acquisition of highly specialized human resources in the mid-career recruits market.

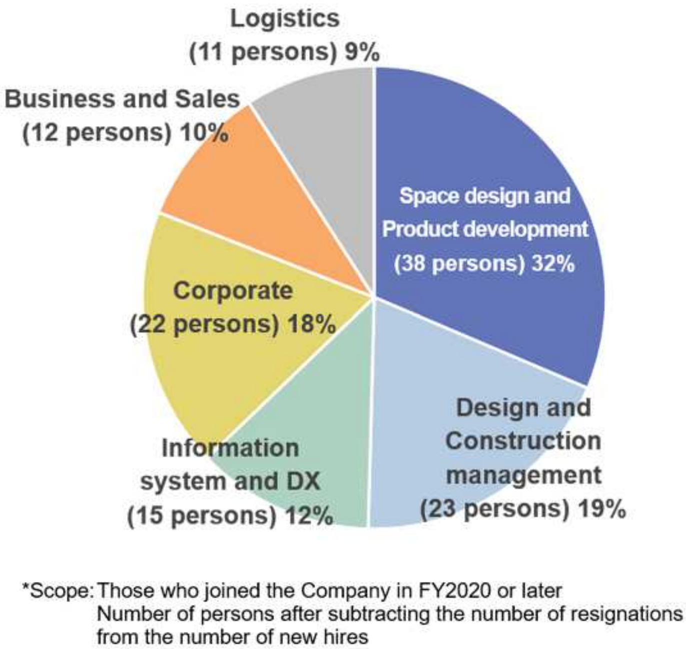
Currently, the Company has 1,298 full-time employees (as of March 31, 2025), and 58 new graduates were hired on April 1, 2025 for general and logistics positions. Regarding mid-career recruits, 49 and 39 employees were recruited in FY2023 and FY2024, respectively, to the target total number of recruitment 60 to 80 employees in three years (FY2023–FY2025) set forth in the Medium-term Business Plan. We are expanding the mid-career recruits primarily for professionals specializing in the space solutions business, including space designers and design and construction management, as job roles required, as well as in the information systems, logistics, and Corporate Division, etc.

- Progress of career recruiting (non-consolidated)



* Number of resignations refers to the number of mid-career recruits who have resigned.

- Ratio of mid-career recruits by division (non-consolidated)



(ii) Assignment of human resources staff by organization

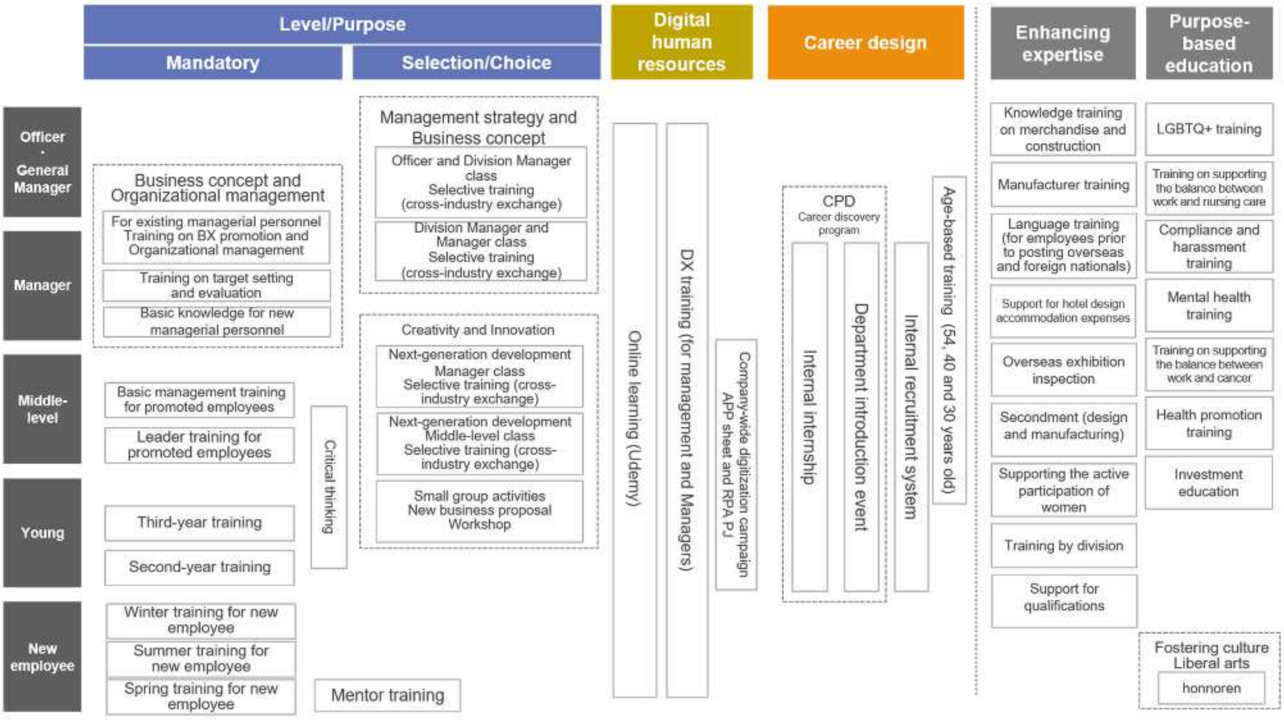
In promoting "improving human capital value," it is important not only to implement measures such as sharing values, reforming personnel systems, and hiring mid-career employees, but also to create an environment in which these measures can function and each employee is highly motivated and able to maximize their capabilities. By assigning human resources staff to each organization to perform detailed human resources management for all aspects of career design, including education and training, assignment, and transfers, from FY2023, and by providing career design support and the appropriate assignment of personnel based on an understanding of each employee, we aim not only to reform the culture and mindset of the entire organization, but also to create new business opportunities.

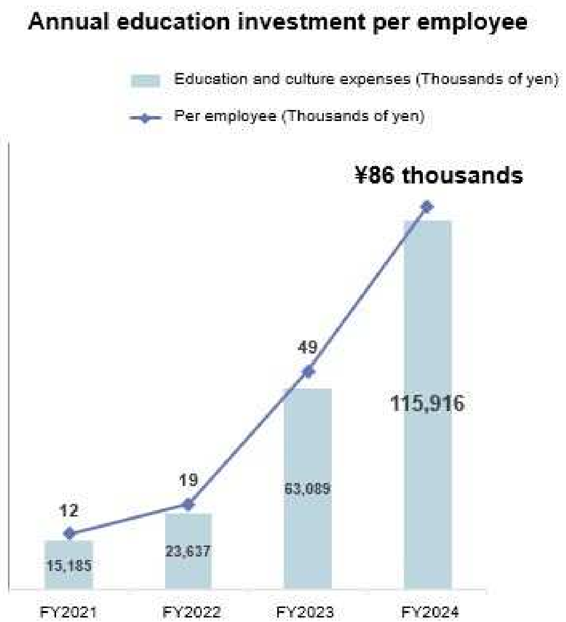
(iii) Expansion of education and training

Regarding the expansion of education and training, we provide level-based training aimed at strengthening business skills, business building capabilities, and organizational management capabilities, as well as training tailored to specific topics such as digital human resource development, career design, and strengthening expertise by job type, in order to support employees to increase their motivation to grow. From FY2023, we have significantly increased selective training and opportunities for cross-industry exchange in order to develop management talent and next-generation leaders. Additionally, we have introduced the online learning tool "Udemy Business" for full-time employees and special contract employees with the aim of supporting employees' active learning, and we are promoting the reskilling of employees to support the active participation of human resources and strengthen expertise and business building capabilities as outlined in the Medium-term Business Plan.

In addition to improving individual capabilities through education and training, we are also promoting initiatives to enhance employee motivation and foster career ownership. In FY2024, we implemented the "internal internship" program that allowed employees to experience working in departments other than those to which they belong, with approximately 130 participants. Furthermore, we actively provide opportunities to consider career goals, the skills and challenges necessary to achieve them, and support career self-management by holding department introduction events utilizing online tools and implementing projects utilizing the internal recruitment system.

Education system diagram





2) Developing the internal environment (Diversity, equity, and inclusion)

Sangetsu Group Basic Policy on Diversity, Equity & Inclusion

As the domestic and international external environment surrounding the Sangetsu Group continues to change rapidly, it is essential to provide a wide range of functions or merchandise, and highly specialized services to meet the diversifying sectors of demand, regions, and customers in order to build a strong business foundation and achieve sustainable development.

The Sangetsu Group will utilize the individuality of each employee as diversity, regardless of their gender, age, nationality, race, religion, disability, gender identity, or sexual orientation, and will promote the creation of a culture and enhancement of systems that encourage continued challenges and innovation.

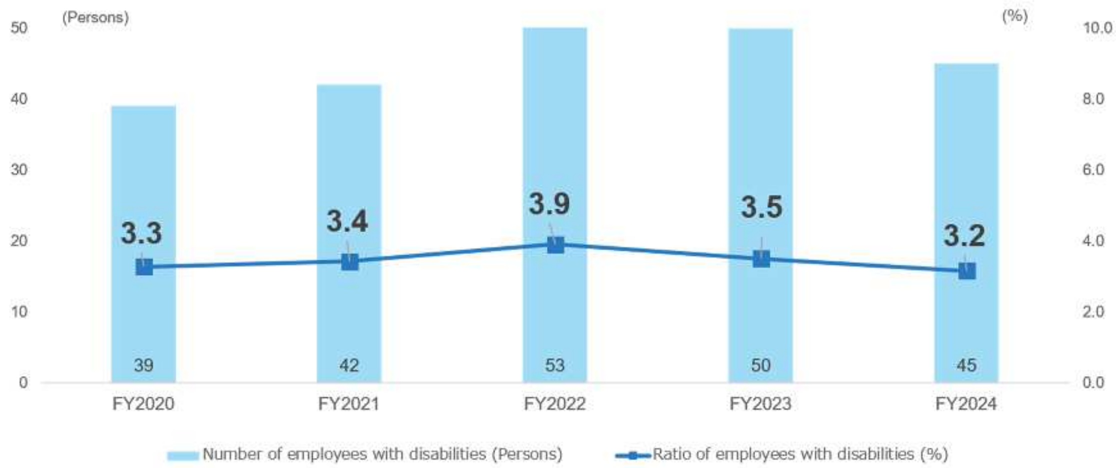
We have placed "Diversity, Equity & Inclusion," which connects new perspectives and ideas based on differences in backgrounds, sensibilities, and values to rich creativity, at the core of our management, and are working on it as an important measure to achieve growth while capturing the demands of an increasingly diversifying market.

(i) Supporting the active participation of diverse human resources

As part of our management strategy, we are taking various steps to utilize the diversity of our employees, with the aim of maximizing the motivation and capabilities of each employee and bringing new value creation to the organization. As part of our efforts to support the active participation of diverse human resources, we have implemented various systems that allow for flexible working styles, and we are also working to improve working conditions and implement trial employment programs in each organization for the employment of people with disabilities. In addition to hiring new graduates, we are also working to strengthen human capital in information systems, logistics, and the Corporate Division, as well as conducting mid-career recruits for space designers and construction engineers to expand business domains.

- Ratio of employees with disabilities (non-consolidated)

  The ratio of employees with disabilities is 3.2% (as of March 31, 2025), which exceeds the statutory rate of 2.5%. We will continue with initiatives towards our FY2025 target of 4.0% or higher.



(ii) Supporting the active participation of women

In the implementation of our strategic personnel system reforms, we are implementing a voluntary action plan based on the Act on the Promotion of Women's Active Engagement in Professional Life. With the aim of creating an organization where female employees can thrive and utilize their strengths, and a system to support this, we have appointed a DE&I promotion officer within the Human Resources Department and are implementing various measures to achieve this target. We have promoted DE&I in line with a two-year action plan starting from FY2024, with the aim of utilizing the knowledge, experience, and expertise of employees across the organization, regardless of gender.

Action plan based on the Act on the Promotion of Women's Active Engagement in Professional Life (FY2024-2025)

Purpose	To realize an organization where female employees can continue working for a long time, utilize their strengths, and thrive, and a culture that supports this
Plan period	Two years from April 1, 2024 to March 31, 2026
Target (1) (quantitative)	Increase the ratio of women in management positions to 25% by FY2025
Target (2) (quantitative)	Increase the ratio of male employees taking childcare leave for 2 weeks or longer to 100%
Target (3) (qualitative)	Aiming to create a workplace that is easy to work in and highly productive by developing an environment that addresses health issues specific to women

Measures

Career formation support	• Introduction of training on career formation support for female employees from an early stage • Introduction of training to improve career formation support skills for the superiors
Elimination of the gender gap	• Conduct training for managers to promote taking childcare leave, and achieve a 100% participation rate. • Conduct a survey of male employees who took childcare leave, disclose the results, and conduct interviews, etc.
Development of working environment	• Install sanitary products in company toilets, review the menstrual leave policy, and create an environment that makes it easier to take leave. • Consideration of introducing a system to support fertility treatment

- Ratio of female managers (non-consolidated)

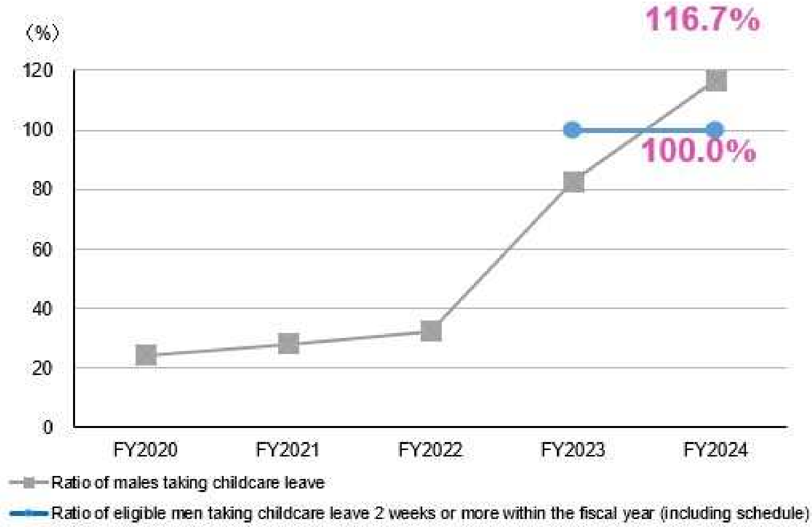
  Our target is to have 25.0% or more female managers by the end of FY2025. As of April 1, 2025 the ratio of female managers was 22.8%.

* Calculations are based on the figures as of April 1 each year to take into account the timing of personnel changes.

- Ratio of males taking childcare leave (non-consolidated)

  We encourage male employees to take childcare leave in order to create an environment in which everyone can balance work and childcare regardless of gender, and to establish a system for supporting childrearing across the company and departments. Currently, 100% of female employees take childcare leave, and we are also aiming for a 100% rate (for two weeks or more) for male employees by FY2025.

  Based on the definition set by the Ministry of Health, Labour and Welfare, the rate of males who took childcare leave in FY2024 was 116.7%. Meanwhile, the ratio of males taking childcare leave of two weeks or more, which is set as a quantitative target in the Medium-term Business Plan, is 100%, including those who plan to take childcare leave until their child turns one year old.



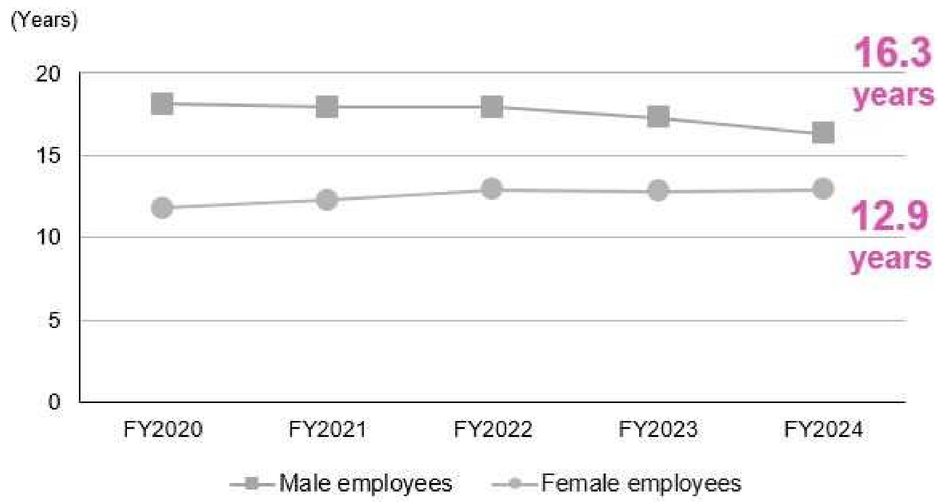
* Ratio of males taking childcare leave (including childcare leave at the time of birth):

Number of male employees who took childcare leave during the fiscal year ÷ Number of male employees whose spouses gave birth during the fiscal year

The ratio may exceed 100% in some cases, as male employees whose spouses gave birth in previous fiscal years may take childcare leave in the current fiscal year.

- Average years of service (as of March 31 each year) (non-consolidated)

We aim to be a company that is a rewarding place to work where each employee can take on their work with enthusiasm. One indicator of this result is that the average years of service remains stable for both men and women.



(iii) Initiatives regarding LGBTQ+

We have established the Sangetsu Group Human Rights Policy and the Sangetsu Group Basic Policy on Diversity, Equity & Inclusion, and have communicated both inside and outside the company that we will utilize the individuality of each employee as diversity, regardless of their gender, age, nationality, race, religion, disability, gender identity, or sexual orientation, and will promote the creation of a culture and enhancement of systems that encourage continued challenges and innovation. Based on these policies, we have been working to expand and improve the systems, including continuous participation in ALLY (*) events, conducting regular LGBTQ+ training for all employees, and introducing the "same-sex partnership system." These efforts have been recognized, and we have received the highest "Gold" rating for two consecutive years in the PRIDE INDEX 2024, an evaluation index for LGBTQ+ issues.

* ALLY: A person who acts to proactively support the LGBTQ+ community.

3) Developing the internal environment (review of work styles)

Policy regarding work styles

At Sangetsu we respect the diversity, personality, and individuality of each employee, operate a personnel system that allows each employee to maximize their capabilities, and ensure a safe and comfortable working environment.

(i) Supporting the balance between work and family

We support employees to provide childcare and nursing care in order to develop an employment environment in which employees can fully utilize their capabilities, and contribute to the development of the next generation. We foster a culture of shared parenting through a variety of measures, such as holding seminars on nursing care, providing subsidies for the cost of babysitting and childcare for sick children, corporate partnerships with private childcare centers, and hosting children's open days to promote understanding towards those employees with children and encourage communication within the home, and support the balance between work and family life.

Childcare and nursing care support system

Pregnancy and birth	During childcare leave	Raising children	Nursing care
Pregnancy and maternity leave	• Childcare leave support program (Meeting with superior, child raising support seminar) • Made childcare leave partially paid leave	• Reduced work hours for child raising system (Until the child starts 2nd year of elementary school) • Corporate partnerships with private childcare centers • Subsidy for childcare services for sick children • Subsidy system for babysitters • Flextime system • System to use paid leave in hourly units • Remote working system	• Nursing care leave (Statutory period + extension of up to 1 year) • Flextime system • System to use paid leave in hourly units • Remote working system

(ii) Diversity of work styles

We are implementing various measures to improve and strengthen our labor management, with the aim to create a "rewarding" workplace where employees can work with enthusiasm. We are taking a variety of measures to promote the work-life balance of employees, including flexible working systems such as flextime and remote working, the use of ICT technologies such as Google Workspace*, subsidies for babysitting costs, and business partnerships with private childcare centers. In January 2025, we participated as an endorsing company in the GCNJ Collective Action 2030 "GCNJ Summit 2025 ~Social Change by Equity~" hosted by the Global Compact Network Japan (GCNJ), and declared the specific action plans as our 2030 targets, including "Develop an environment where all employees can choose diverse work styles suited to their life designs and demonstrate their abilities with peace of mind," "Ensure that all eligible employees take at least one month of childcare leave and support shared parenting." We are committed to creating a workplace where employees can play an active role with peace of mind.

Additionally, the "PARCs Sangetsu Group Creative Hub" in Hibiya, Tokyo, which was opened as a base for creating new value for the Sangetsu Group, is not only expanding the business by consolidating group functions, but is also promoting initiatives that lead to the "wellbeing" of employees and visitors, and has received the Gold rank certification under the "WELL Building Standard™ v2 (WELL certification)."

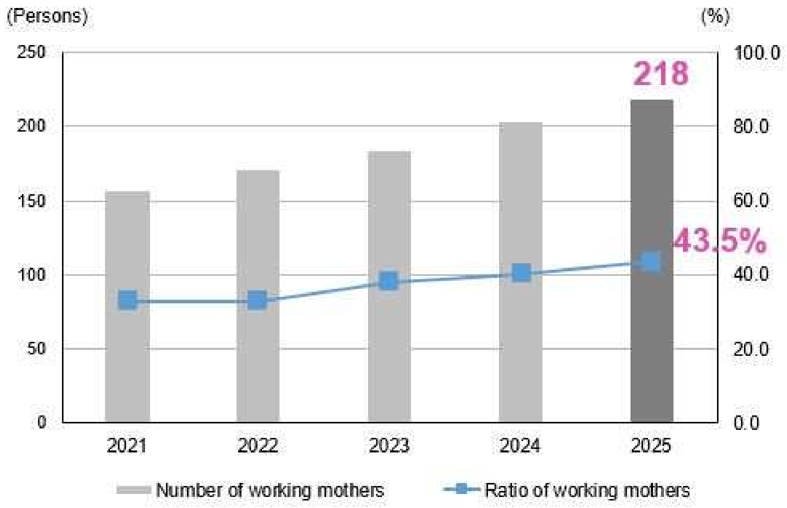
* A groupware tool provided by Google for improving productivity using cloud computing.

Measures to create a comfortable working environment

Flexibility of work styles	A range of systems are in place that are easy to use depending on the type of duties and work environment, such as flextime with no core time, working from home, staggered working hours, and a paid leave system based on hourly units. Employees can work from satellite offices and the offices of Group companies, which expands the options for where to work.
Prevention of overwork	Employees can share work and prevent overwork by visualizing working hours through PC logs, setting times that PCs will automatically shut down, utilizing Google Workspace for smooth communication through its remote meeting and chat functions, and sharing each other's work status. A consultation desk with public health nurses and industrial physicians has been established.
Office environment	A comfortable office environment is being developed by implementing a complete smoking ban on company premises, promoting flexible seating work style, and establishing communication areas.

- Ratio of working mothers (as of April 1 each year) (non-consolidated)

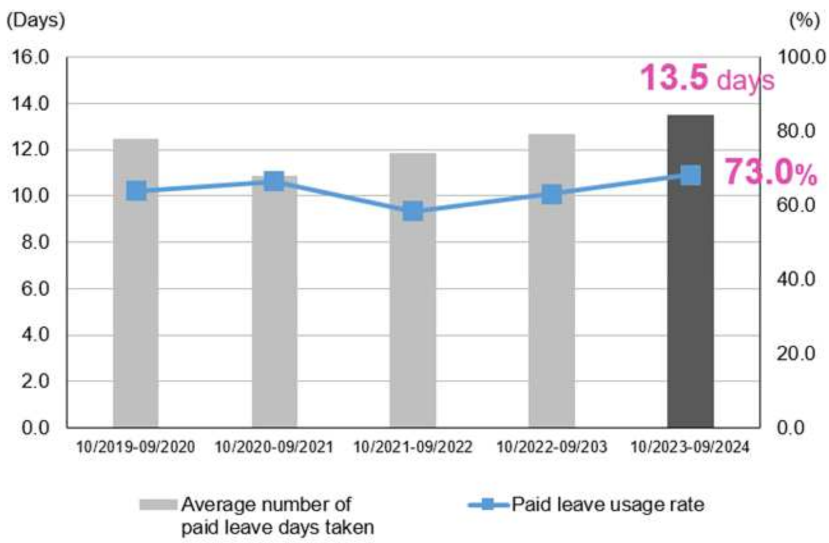
  We are promoting the creation of systems and environment that enable employees to continue working while raising children. Since 2022, the definition of a working mother has been changed from “all female employees with children” to “female employees with children under the age of 18.”



* Ratio of working mothers: number of working mothers ÷ number of full-time female employees

- Paid leave usage rate (non-consolidated)

  Through the promotion of planned acquisition, the number of paid leave days taken and the paid leave usage rate are on an upward trend.



4) Developing the internal environment (health management)

Health management policy

To work and live a healthy life “so that employees can work with enthusiasm”

- Improving mental and physical health (employees and their families)

  We will work to improve our systems for promoting mental and physical health and engage in activities to maintain and improve health.
- For a more enriched life

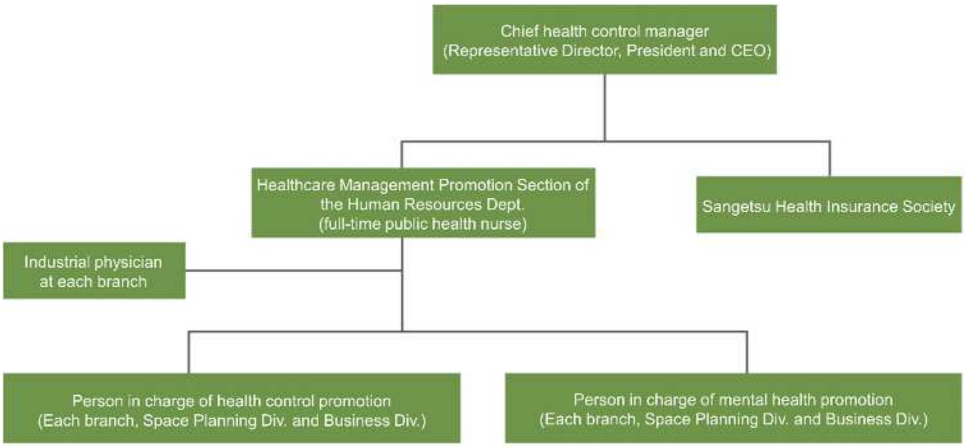
  We will contribute to creating happiness for employees, their families, and the entire local community through health management.
- Creating a comfortable work environment

  Securing a comfortable work environment that is safe, healthy, and easy to work in.

One of the five principles of the Sangetsu Group Corporate Charter is “so that employees can work with enthusiasm.” We respect the diversity, personality, and individuality of our employees, and are committed to operating an appropriate personnel system that allows each employee to maximize their capabilities as a central figure in the company's management, as well as ensuring a comfortable work environment that is safe, healthy, and easy to work in. We will continue to strive to maintain and improve the health of our employees by ensuring a comfortable work environment that is safe, healthy, and easy to work in and by improving our system for promoting physical and mental health.

Health management promotion system

The Representative Director, President & CEO is the person chiefly responsible for health management, and the health management promotion staff and public health nurses in the Healthcare Management Promotion Section of the Human Resources Department are at the center of developing activities to maintain and improve the health of employees in cooperation with health management promotion staff and industrial physicians at each business location, in order to create a comfortable working environment and promote physical and mental health.



Specific initiatives

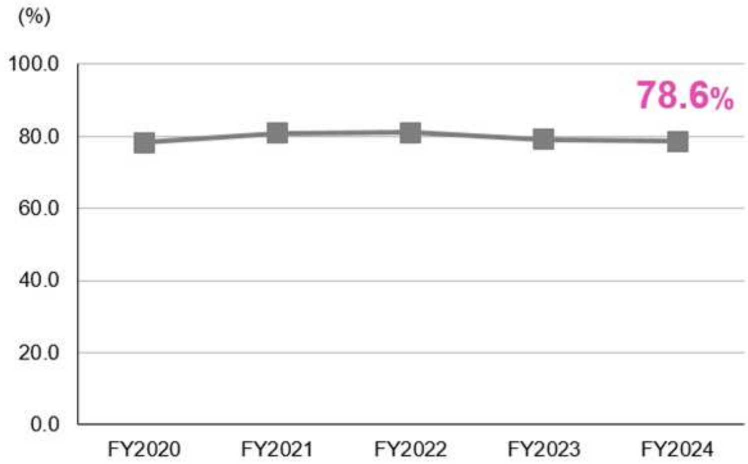
We aim to develop a comfortable work environment that is safe, healthy, and easy to work in so that employees can work with enthusiasm, and to enhance our system for promoting physical and mental health, and are continually working on activities to maintain and promote health, such as encouraging employees to take planned annual leave, implementing a complete smoking ban during standard working hours, and implementing stress checks for all employees. In 2019, we established the Sangetsu Health Insurance Society, established an organizational structure for health management, and strengthened our efforts to promote mental and physical health by beginning to fully subsidize health checkups, including for breast cancer, cervical cancer, and prostate cancer (for men aged 50 and over), disseminating health-related information, and holding various health events. Furthermore, we have introduced an Advanced Cancer Care Compensation Program to reduce the financial burden on employees undergoing treatment under the Advanced Treatment System which is not covered by health insurance, and we are also putting in place a financial support system for "balancing treatment and work," in addition to our ongoing awareness-raising activities for the prevention and early detection of disease. In FY2023 we progressed "collaborative health projects," such as the commencement of full subsidization of gastroscopy tests, the provision of diabetes prevention programs through the sharing of health issues with health insurance society, the commencement of a dental checkup subsidy program, and the active promotion of specific health guidance. In addition, from FY 2024, subsidies for brain checkups, chest CT scans, and cervical cancer screenings for young women have also been introduced.

In the Medium-term Business Plan [BX 2025], we have defined employee health and skill development as quantitative targets for health management, and the "ratio of non-smokers" as a target for cultural reform. We will continue to work to develop a safe, healthy, and comfortable workplace environment in which employees can work with ease. These activities have been evaluated and we have been certified as a KENKO Investment for Health Outstanding Organization (large enterprise category) for six consecutive years since 2020.

2025
健康経営優良法人
KENKO Investment for Health
大規模法人部門

- Ratio of non-smokers (non-consolidated)

  The smoking ratio has been on a downward trend due to ongoing efforts, but remains at 78.6% (target: 85% or more) as of March 31, 2025 due to factors including the smoking rate of new recruits. We will further strengthen our initiatives against smoking.



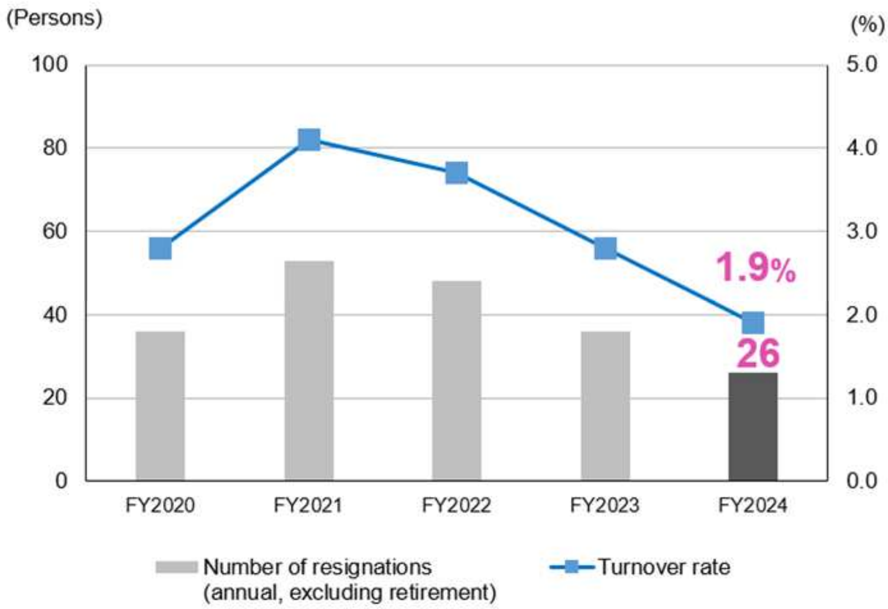
  In addition, we are promoting health management by setting quantitative targets for metrics such as the rate of abnormal findings in periodic health checkups and the rate of employees receiving cancer screening. Please see our website for further information.

  Health management

  https://www.sangetsu.co.jp/english/sustainability/social/health_management.html

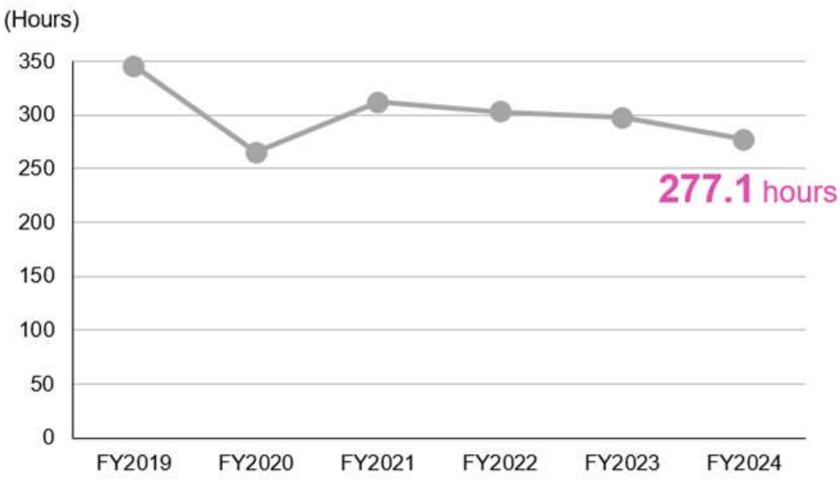
- Other reference metrics (non-consolidated)
  - Number of resignations (annual, excluding retirement) / turnover rate

    We respect the human rights of each employee, prohibit unfair discrimination and harassment, and are striving to create a fair and bright workplace. We are promoting the creation of a work environment where employees can maintain their physical and mental health, and have maintained a low turnover rate over the past five years.



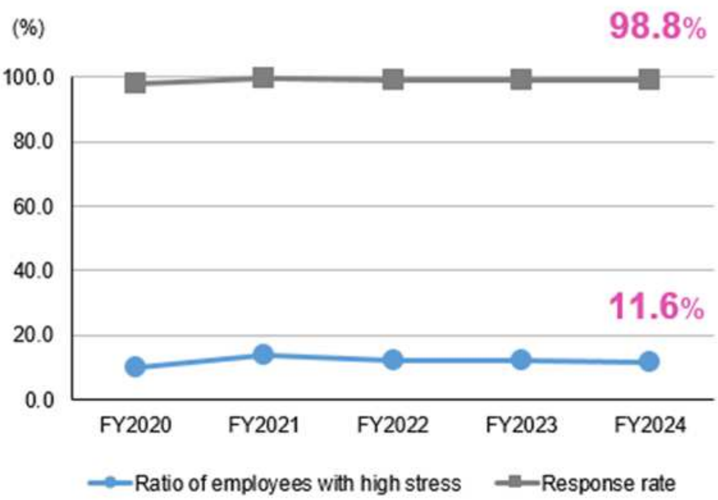
- Trends in annual overtime work hours per employee

  In response to the significant impact of the COVID-19 infection in FY2020, we have been focusing on proactively introducing systems and programs that enable diverse work styles, reviewing operations, promoting outsourcing, and promoting the reduction of overtime work.



- Stress check participation rate and results (ratio of employees with high stress)

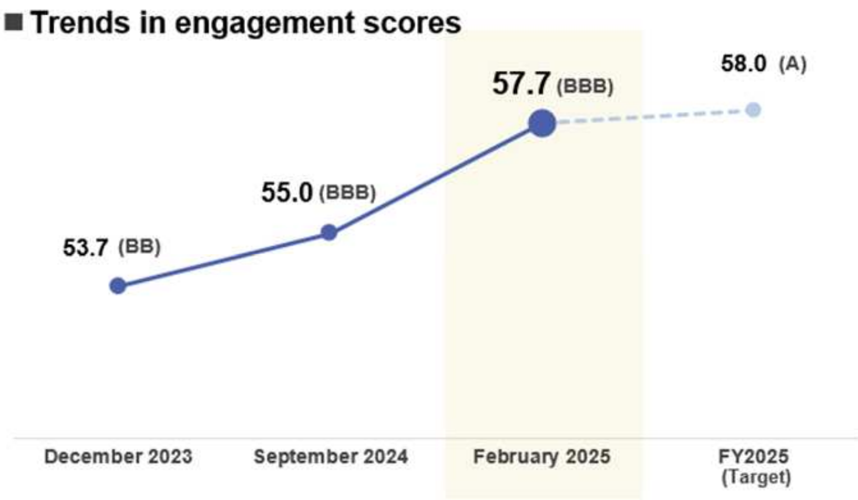
  In the most recent fiscal year, the number of employees with high stress was around 10%. We are striving to prevent mental health problems and improve the working environment by conducting regular stress checks.



5) Engagement (initiatives to foster corporate culture)

We believe that for a company to grow, it is essential that employees understand and empathize with the company's direction and are highly engaged in their work. We conduct an engagement survey targeted at all employees, analyze the results, and reflect them in reforms to our organization, systems, culture, etc. In particular, we pay close attention to metrics related to employee engagement as a key management issue. While the employee awareness survey was set as a metric in the Medium-term Business Plan [BX 2025], in order to clarify the components of engagement by visualizing the data and to implement specific improvement measures based on the survey results, we have introduced a new "engagement survey" in FY2023 and accordingly changed the metric in the Medium-term Business Plan [BX 2025] to the "engagement score." The target for FY2025 is to raise the engagement score two levels from "BB (score 52.0 or above)" achieved in FY2023 to "A (score 58.0 or above)."

In addition, communication across management, employees, departments, positions, generations, and regions is essential for fostering engagement. The Company considers it a key management issue to "foster a corporate culture in which human resources, who are the foundation of the organization, can fully demonstrate their abilities and potential and engage in co-creation beyond the framework of departments, Group companies, etc." We are communicating this message through various opportunities. As part of these efforts, we have launched "KONDO's talk," a communication content that conveys the President & CEO's thoughts on social trends and topics within the Group. We also strive to share awareness and vision with employees through various dialogue opportunities, such as dialogue meetings with employees and social gatherings for new and mid-career employees.



(4) Metrics and targets

Targets and results in the Medium-term Business Plan (2023–2025) [BX 2025] are as follows.

Employee health and skill development, culture reform

	Unit	Scope	Target	FY2023 results	FY2024 results
Ratio of non-smokers	%	Non-consolidated	85% or higher	79.1	78.6
Investment in human capital	Millions of yen	Non-consolidated	¥700 million in 3 years	230	270
No. of mid-career workers hired	Person	Non-consolidated	60 to 80 in 3 years	49	39
Engagement score*	–	Non-consolidated	58.0(A)	53.7(BB)	57.7(BBB)

* From fiscal 2023 onwards, we will use scores from Motivation Cloud, a service provided by Link and Motivation Inc.

Promotion of diversity, equity, and inclusion

	Unit	Scope	Target	FY2023 results	FY2024 results
Ratio of female managers*1	%	Non-consolidated	25% or higher (as of April 2026)	21.2	22.8
Ratio of employees with disabilities	%	Non-consolidated	4% or higher (as of March 31, 2026)	3.5	3.2
Ratio of male employees taking childcare leave*2	%	Non-consolidated	2 weeks or longer: 100%	2 weeks or longer: 100%	2 weeks or longer: 100%

*1 Calculations are based on figures as of April 1 each year to take into account the timing of personnel changes.

*2 The ratio of men taking childcare leave for two weeks or more includes those who plan to take leave until their child turns one year old.

4. Approach and initiatives for information security

The Company considers it an important management issue to strive to strengthen information security, appropriately protect information assets from the threat of various cyber attacks, and maintain and continue normal and smooth business activities.

We are working to reduce information and cyber security risks in order to maintain the confidentiality, integrity, and availability of information in our business activities and to protect from malicious attacks (intentional acts) our information assets, such as computers, servers, mobile devices, electronic systems, networks, and data, as well as the services we provide.

Information and cyber security policy

https://www.sangetsu.co.jp/security_policy/

(1) Governance

The Company appointed an officer in charge of cybersecurity and established a Cybersecurity Management Office. The officer in charge of cybersecurity leads the Cybersecurity Committee, which includes the President & CEO and responsible persons from each department. The committee identifies information security issues every six months and discusses countermeasures.

In addition, we have established a CSIRT (Computer Security Incident Response Team) to manage incidents across the entire Group and are working to increase the number of employees with security certifications.

(2) Risk management

Risk management regarding information security is as described in “3. Business risks - (10) Information security.”

(3) Strategy

(i) Information system security measures

The Company is implementing comprehensive measures to maintain the three elements of information security, which are “confidentiality,” “integrity,” and “availability.” To address internal threats, we are strengthening access control by introducing a privileged ID management system and reducing the risk of information leaks by introducing a system to prevent misdirected emails. To address external threats such as malware, we are installing, developing, and operating countermeasures in various areas and working to build an environment that minimizes adverse effects on the business. Furthermore, we monitor Internet-accessible assets across the entire Group and strive to improve security levels. As for external collaboration, in addition to monthly information sharing with security vendors, we have joined the Nippon CSIRT Association from 2024 and are focusing on the latest cyber security risk trend surveys and the development and operation of countermeasures.

(ii) Thorough information security education

Since 2024, we have introduced an information security education and training system, which provides regular e-learning security education and targeted email training that simulates cyberattacks exploiting email. Through these measures, we are working to improve the knowledge and awareness of information security for each and every employee. In addition, the effective and efficient use of information and data in the business is extremely important for the operation of the business, therefore, we strive to continuously improve the security level that supports this.

3. Business risks

The matters recorded in the annual securities report concerning the overview of business, financial information, etc. include the following key risks that are recognized by the management as having the potential to exert a material impact on the financial position, operating results, and cash flows of consolidated companies.

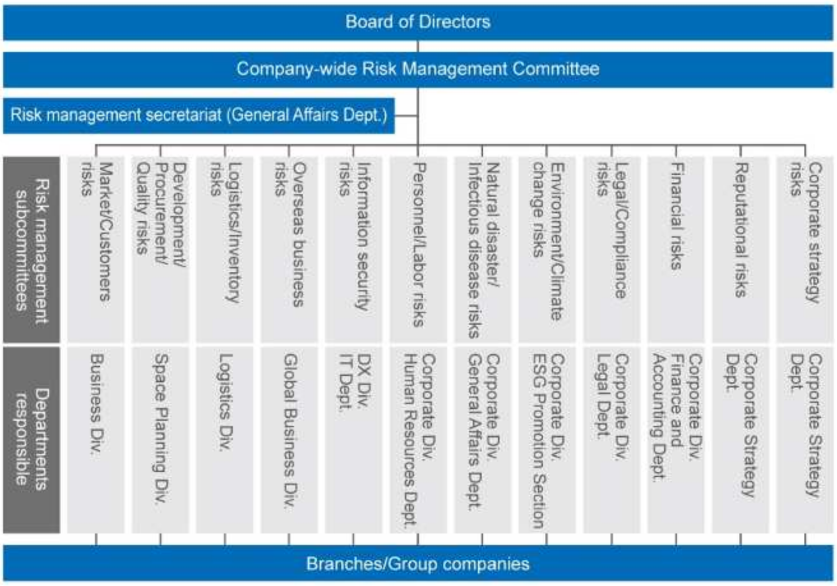
Please note that matters concerning the future in this article were determined by the Group as of the end of the fiscal year ended March 31, 2025.

1. Approach to risk management and risk management system

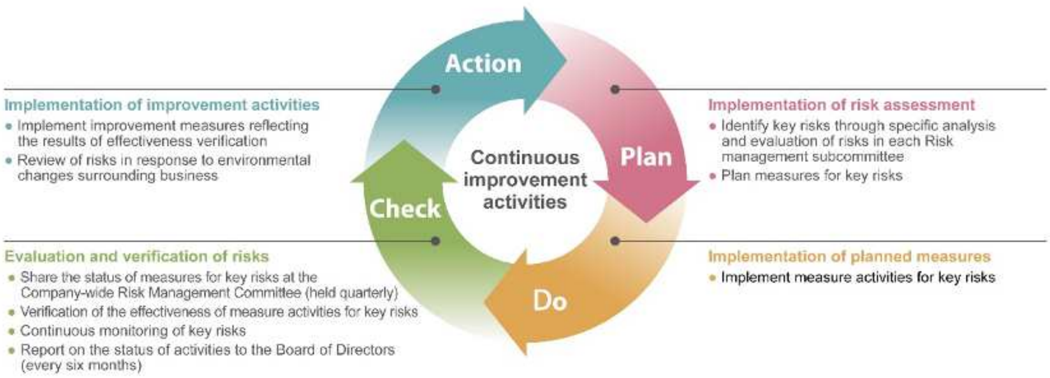
The Group strives to maximize corporate value and minimize the impact on management and operations by responding appropriately and promptly to various risks.

The Company's risk management system is managed by the Company-wide Risk Management Committee, for which the President & CEO has ultimate responsibility. We strive to maintain and enhance the corporate value of the entire Group, minimize the impact of risks when they arise, and manage various risks that may affect the Company's activities and employees. The Company-wide Risk Management Committee meets once every quarter to establish basic policies and systems for overall risk management and has functions such as forming task forces as necessary. Activity status is reported to the Board of Directors once every six months, and management is able to exercise decision-making based on an accurate understanding of existing risks. We have identified and clearly defined risks that need to be continuously monitored and addressed from various perspectives, from those that are already partially apparent to those that are not yet apparent. Each risk management subcommittee identifies foreseeable risks, evaluates them using mapping, and clarifies the risks that require priority measures.

<Organization chart>



<PDCA for risk management>



2. Major risks of the Group

(1) Business environment

(Description of risk)

The Group operates its business through the Domestic Interior Segment, which in addition to planning and selling interior products such as wall coverings, flooring materials, and fabrics (curtains and upholstery) and manufacturing wallpaper, also conducts design and proposals through to interior and architectural installation; the Domestic Exterior Segment, which sells exterior products such as gates, fences, and carports, and proposes and constructs exterior spaces; and the Overseas Segment, which manufactures wallpaper in the United States, sells interior materials in the Pacific Rim region of North America, China, Hong Kong, and Southeast Asia, and conducts space design, general construction, etc. in Southeast Asia. Since these businesses are dependent on construction demand, there is a risk of losing business opportunities due to factors such as the overall trends of the national economy, government policies regarding housing, changes in the tax system, and a decrease in the number of new residential and non-residential construction starts due to a declining population, as well as a decrease in the contract market due to economic downturn.

(Measures against risk)

In the domestic market that is the foundation of our business, we do not expect to see significant growth in new construction and renovation in the residential and non-residential sectors in the future due to the declining birthrate and aging population, and we are focusing on our medium-term strategy of expanding our market share and improving income through price revisions under the background of reorganizing and improving our various domestic business foundations, while our long-term strategy is to expand our domestic Exterior Business and to profitably expand our Overseas Business. In terms of procurement, we are working to avoid risks by investing management resources into our manufacturing divisions to ensure stable supply from manufacturers and to facilitate product development from a medium- to long-term perspective. In addition, taking into account the long-term development potential of our current businesses, we have established the Business Creation Promotion Division in April 2024 and focused on creating new businesses in order to explore and implement business development possibilities for further growth.

(2) Quality control

(Description of risk)

The Group plans, develops, and sells attractive wall coverings, flooring materials, fabrics, and other interior products that are essential elements in living spaces, based on an accurate understanding of customer needs, with the aim of “With all people we collaborate to create peaceful and inspirational spaces.” Except for some products, manufacturing is carried out by external manufacturers of our suppliers, and we receive product supplies from them. However, ensuring product quality is the very “value” that customers require for products, and it forms the foundation for improving reliability as a brand manufacturer, enhancing customer satisfaction, strengthening competitiveness, and increasing corporate value. In addition, for interior products that will be used over a medium term period, it is also important to ensure quality over a long period of time, including changes over time.

(Measures against risk)

We have defined the product design review process as Design Review (DR-A/B/C) and have established and operated a system in which multiple persons in charge verify and check each stage of development. When developing new products, we utilize the “Quality Requirements Confirmation Sheet” that comprehensively lists items to be verified during the quality verification stage. At DR-A, we identify verification items; at DR-B, we confirm quality and functionality, as well as legal requirements; and at DR-C, we report the verification results. After the product is launched on the market, we identify similar risks in advance and take appropriate measures by analyzing and sharing examples of deficiencies through complaint response meetings for each product group.

In addition, for outsourced manufacturing, we clarify quality standards, outsource the manufacture of products in accordance with quality control standards, and to maintain and improve quality, we manage changes in the four elements that occur at the manufacturing site: “Man” “Machine” “Material” “Method,” and have established a system to evaluate the impact of these changes on product quality through prior reporting and implement appropriate measures to prevent quality issues before they occur.

(3) Stable procurement, stable supply, and BCP of suppliers

(Description of risk)

The Group conducts sales and marketing activities for wallcoverings and flooring material, which are the main merchandise we handle, by distributing sample books which contain samples of merchandise. As our industry is heavily dependent on maintaining a stable supply throughout the validity period of sample books, interruption to the supply of merchandise due to unforeseen factors such as production problems or raw materials procurement could have an impact on the Group’s business performance.

(Measures against risk)

In order to ensure the stable procurement of products from manufacturers, we inspect the manufacturers’ factories and check that their manufacturing processes are appropriate before purchasing, and in the event that procurement becomes difficult, we have established an environment as a backup system, such as ensuring sufficient inventory of major merchandise and preparing alternative merchandise. However, considering the impact of the fire that occurred at a factory of one of the Company’s suppliers in December 2024, which resulted in a delay in the supply of some flooring materials, we will review the medium-term procurement strategy and strengthen stable supply in preparation for emergencies.

The Company’s subsidiary, CREANATE Inc., is the largest manufacturer of wall paper in Japan. As we expand the wallcoverings business, we believe that further development will be possible not only through strengthening our competitiveness and securing volume, but also through improving business efficiency by establishing an integrated manufacturing and sales system, and recognize that maintaining stable factory operation and a stable supply of merchandise is an issue that the entire

Group must address. We will further enhance the stability of supply in a planned manner by opening a new CREANATE Inc. factory in Higashi-Hiroshima scheduled to start operation in the fall of 2025.

In addition, to ensure a sustainable supply of merchandise from the Company to our customers, we are strengthening system integration at all stages, from receiving products to receiving orders and shipping, as well as regularly reviewing action plans to address risks that may hinder the stable operation of logistics centers, which serve as inventory hubs in each region, and are working to confirm the effectiveness of and improve countermeasures.

(4) Design and construction business

(Description of risk)

The Group not only sells interior design materials and exterior materials, but also designs and proposes space designs that utilize these materials, and even operates the business of installation work. In the design and installation business, the business activities must be conducted in accordance with various laws and regulations, including the Construction Business Act, and there are risks to business continuity and reputation if we are judged to have committed a violation, and issues such as securing specialized personnel.

(Measures against risk)

In order to build and expand highly profitable businesses, in April 2025, we have established the "Space Solutions Group," which is comprehensively responsible for business planning, space design, construction, sales, project management, and marketing in the field of space creation, and have established a system to thoroughly manage risks related to the construction functions of the entire Group. In addition, we are constantly working to improve our operations by recruiting and training experienced personnel with specialized knowledge and securing the certified skilled workers for picture mounting in the space solutions business, reviewing and considering the systematization of workflows, and conducting thorough internal supervision from a legal perspective.

(5) Logistics function

(Description of risk)

The Group operates businesses that stock, ship and deliver goods. Maintaining a delivery network throughout Japan is not only essential for business continuity, but is a function that we consider to be one of the Company's strengths. However, we recognize that securing drivers, promoting initiatives for improving efficiency in preparation for the 2026 logistics problem and, ultimately, securing stable delivery capacity are major issues due to the 2024 logistics problem and aging population.

(Measures against risk)

By internalizing logistics functions in a wide area within the Group, we aim to strengthen sustainable logistics functions, including reducing environmental impact, and to build and advance a delivery system that is more responsive to individual regions and a more effective and efficient logistics system that includes procurement logistics. Following the establishment of Kurosukikaku, Corporation in September 2022 (converted to a stock corporation in April 2023), we acquired SDS Corporation, a logistics company, as a subsidiary in April 2025. In addition, we will promote the reduction of manpower in cargo handling operations such as loading and unloading through the introduction of cargo handling equipment, and will gradually implement efficient operations through systemization.

(6) Intellectual property

(Description of risk)

Under the brand statement of "Joy of Design," the Group strives to develop merchandise with excellent design and functionality that can provide the "Joy of Design" through the creation of a variety of spaces. However, there is a risk that similar merchandise may be manufactured by other companies.

Furthermore, if a third party alleges infringement of intellectual property rights and a lawsuit is filed, the Group may incur losses such as litigation costs and damages, which could have an adverse effect on business performance.

(Measures against risk)

We are taking various measures to reduce risks, such as the following.

・ We are working to create, protect, and utilize intellectual property by filing applications for and obtaining rights to patents, designs, and trademarks related to our business.
・ We constantly monitor the intellectual property information of competitors, share the latest information (patents, designs, trademarks, etc.) within the company, and conduct prior investigations and confirmations when launching products, etc.
・ We work closely with external experts such as patent attorneys and lawyers and have created a system for immediately taking measures against risks.

(7) Legal restrictions

(Description of risk)

Unforeseen changes to laws and regulations may affect the business performance of the Group, which is subject to various legal regulations regarding product liability, intellectual property, the environment, and labor in the course of conducting its business.

(Measures against risk)

We constantly monitor domestic and foreign laws and regulations to ensure that we comply with them. We also consider compliance to be a minimum requirement for a company, and have established a management system and are working to strengthen employee education.

(8) BCP for natural disasters, etc.

(Description of risk)

The Group’s facilities related to merchandise development, manufacturing, procurement, logistics, sales, and services are spread throughout Japan and overseas (North America, China, Hong Kong, and Southeast Asian countries), and natural disasters such as earthquakes, floods, storms and heavy snow could cause infrastructure to stop, or buildings and facilities to be damaged or broken, resulting in confusion that could have an adverse effect on the Group’s business performance and financial position.

(Measures against risk)

In order to minimize the impact of natural disasters on our business activities, the Group has formulated a Business Continuity Plan (BCP) for times of disaster. In it we have specified the initial response to an emergency, reporting methods, and the establishment and role of a response headquarters, and we have established a system to ensure appropriate action in the event of a disaster and also conduct regular training and equipment inspections. We also review the BCP every year in response to the status of disasters. In addition, to ensure the stable procurement and supply of merchandise, we have established a system that enables product procurement and delivery from alternative locations in the event that a party in the supply chain such as a supplier or one of the Group’s business locations is affected by a disaster. Based on the experience gained from system failures that occurred in FY2024, measures have been strengthened more than ever before, and training assuming large-scale system failures is planned in FY2025 to develop an effective BCP scheme.

(9) Climate change

(Description of risk)

Amid growing interest in the risks of climate change, the Paris Agreement was adopted by the United Nations in 2015, and the Sustainable Development Goals (SDGs) were adopted at the UN Summit held in the same year, which marked progress in the setting of goals targeted at 2030. Meanwhile, in a move related to financial institutions, the Principles for Responsible Investment (PRI), launched by a partnership between the United Nations Environment Programme and the United Nations Global Compact, requires investors to invest sustainably, and in response, Japan’s Government Pension Investment Fund (GPIF) has signed the PRI, making ESG investment a megatrend in Japanese finance as well. Regarding disclosure of climate change-related information, the Task Force on Climate-related Financial Disclosures (TCFD) recommendations call for companies to disclose financial impact in the four areas of governance, strategy, risk management, and metrics and targets.

Amid these dramatic changes in the environment related to climate change, we are faced with the risk of not being able to reduce greenhouse gas (GHG) emissions from our business activities, the risk of not being able to reduce the carbon footprint of our products and sample books, the risk of not being able to collect and recycle the products and sample books, and other physical risks that may occur acutely or chronically, which may affect the business performance and financial position of the Group.

For example, being unable to reduce GHG emissions across the entire supply chain could result in an increase in purchase costs due to increased carbon tax burden, while being unable to reduce the carbon footprint of our products and sample books could mean being unable to meet the market’s needs, which could lead to a decline in trust and loss of business opportunities.

(Measures against risk)

In response to climate change risks, we have established an Environment/Climate Change Risk Subcommittee under the Company-wide Risk Management Committee that is chaired by the President & CEO, and are building an organizational management system. Under this Environment/Climate Change Risk Subcommittee, each risk related to climate change is analyzed along the lines of transition risks, such as legal regulations and reputation, and physical risks, such as acute and chronic risks. The Space Planning Division, Logistics Division, Business Division, and Corporate Division are working closely together to set specific management indicators and monitor and respond to risks.

In addition, in the Sangetsu Group Long-term Vision [DESIGN 2030], we set out the realization of a sustainable society that protects the global environment, and set FY2029 GHG emission targets for our business activities (Scope 1 & 2) of carbon neutrality (net zero emissions) in the non-consolidated company and a 55% reduction for the entire Group (compared to FY2021). We are striving to reduce GHG emissions through energy conservation activities at production sites with high GHG emissions and the introduction of renewable energy. Going forward, we will strengthen engagement with suppliers to reduce GHG emissions across the entire supply chain and promote the expansion of sales of environmentally friendly products that meet customer needs in order to respond to climate change risks.

(10) Information security

(Description of risk)

The Group makes significant investments in order to appropriately manage the various confidential information, including personal information, collected through its business activities. In addition, we take maximum precautions to prevent system problems or external leaks of information when operating, introducing, or updating such systems. However, there is a risk of damage from external computer viruses or hacking, the breakdown of computers or network equipment, system failures due to software defects, business suspension due to partial damage to systems caused by a disaster, and incidents such as information leaks to outside parties, and the occurrence of such unexpected problems could damage the trust from society and result in significant expenses, which may affect the Group’s business performance.

(Measures against risk)

- We are promoting the migration of servers and network equipment to the cloud or data centers and the use of such where appropriate.
- As measures against unauthorized external access and malware, we have introduced the use of intrusion detection and monitoring services and security software.
- Any malware that may affect IT systems is immediately detected and isolated by our EDR (Endpoint Detection and Response) system, and we work with the SOC (Security Operation Center) to deal with the issue swiftly.
- We regularly educate employees about information security (the importance of protecting confidential information, including personal information, and managing information) and provide training.
- We have redundancy in place for important system equipment.
- We have taken out cybersecurity insurance.
- We have enacted personal information protection regulations in accordance with the revised Act on the Protection of Personal Information.
- The above measures are being promoted by the Cyber Security Management Office, which is also working to establish and develop cyber security systems for the entire Group (both in Japan and overseas).

(11) Credit management

(Description of risk)

The Group provides credit to business counterparties and if a counterparty's financial condition deteriorates due to an economic downturn or unforeseen circumstances, making it difficult to collect receivables, the Group may incur losses due to bad debts, which may affect the Group's business performance. We are taking the following measures against these risks, strengthening our credit management system to prevent losses due to uncollectible receivables, and striving to avoid losses due to bad debts.

(Measures against risk)

- Appropriate implementation of credit management regulations
- Annual update of credit limits based on the credit standing of counterparties
- Regular checking of the business conditions of important counterparties and their financial statements
- Review of business terms with a view to future developments with counterparties
- Timely monitoring of debt collection status
- Review of the turnover period of accounts receivable
- Setting of allowance for doubtful accounts in our accounting for counterparties with credit concerns
- Strengthening management of counterparties with credit concerns and providing sales support
- Implementing credit protection measures such as collateral, guarantees, and trade credit insurance according to the credit status of counterparties

(12) Overseas business activities

(Description of risk)

The Group conducts business mainly in North America, China, Hong Kong, and Southeast Asian countries, and there is a risk that the following events may affect the Group's business performance and financial position.

- The spread of an infectious disease, political instability, uncertainty about economic trends, differences in religion, culture or business practices, war or civil strife, terrorism, restrictions on investment, overseas remittances, imports and exports, etc.
- In accordance with accounting standards for impairment of non-current assets, the future cash flows, etc. of assets are calculated and impairment losses are recognized and measured periodically, resulting in the recording of impairment losses on non-current assets.
- The business of a Group company with a manufacturing division experiences extreme fluctuations in the purchase prices of raw materials and merchandise due to a sharp rise in crude oil or mineral prices, etc.
- A sharp increase in transportation costs from Japan and when overseas Group companies procure merchandise from overseas.
- Reputational risks arise due to prolonged product complaints and quality issues, etc.
- We are unable to secure management personnel of the Company and those in local areas to manage overseas Group companies.

(Measures against risk)

- The Group has been proactively creating an environment within the Group that is prepared for emergencies, including by collecting information on issues that could become political or economic obstacles and formulation of a BCP for unforeseen circumstances.
- The Group has established a system for managing businesses after investment.
- If the cost of raw materials etc. rises sharply, we will implement appropriate price revision while assessing the market and competitive situation. We closely monitor not only our suppliers, but also crude oil prices and price fluctuations among raw material manufacturers, and are constantly preparing to gather information in order to make appropriate decisions regarding purchase price negotiations and sales price revisions.
- We select the most efficient transportation method and charge appropriate shipping fees to our customers.

- We are working to establish a system that thoroughly manages quality control in each country and prevents complaints before they arise.
- We are developing young personnel who will take on overseas business in the medium to long term, as well as developing local management personnel who will be responsible for growing business, developing and maintaining organizational structures for transformation, and expanding profitability.

(13) Securing human resources

(Description of risk)

We recognize that securing diverse and capable human resources who can execute the management strategy is essential for the Group to achieve sustainable growth and enhance corporate value over the medium to long term. However, due to the declining labor force population and the increasing fluidity of the labor market in Japan, competition for the acquisition of human resources beyond industry and type of business is intensifying. If we are unable to recruit and develop the human resources the Group needs as planned, or if existing excellent human resources leave the companies, there are risks that the execution of business plans will be delayed, which may affect the Group’s operating results and financial position.

(Measures against risk)

The Group has identified “strengthening human capital” as a key measure in the Medium-term Business Plan [BX 2025] and is actively and systematically promoting investment in human capital. We are strengthening human capital by reinforcing new graduate recruitment and expanding mid-career recruits with high levels of expertise. At the same time, we are working to establish personnel systems that are linked to the business environment, enhance training programs that support employee skill development, career formation, and career self-management, promote DE&I, and develop a workplace environment where diverse human resources can work with peace of mind and fully demonstrate their abilities.

Since FY2023, we have assigned human resources personnel to each organization to carry out detailed human resource management, including career design support and appropriate personnel allocation based on an understanding of each employee. In addition, we are working to improve employee performance by improving employee engagement through the implementation of measures to identify and improve organizational issues using engagement surveys.

We confirm the progress of recruitment plans, the results of engagement surveys, and trends in turnover rates, and conduct risk management.

4. Management analysis of financial position, operating results, and cash flows

An overview of the financial position, operating results and cash flows (hereinafter referred to as “operating results, etc.”) of the Group (the Company and its consolidated subsidiaries) for the fiscal year ended March 31, 2025 and the details of recognition as well as analysis and considerations regarding the status of operating results, etc. of the Group, from management’s perspective are as follows.

Please note that matters concerning the future in this article were determined as of the end of the fiscal year ended March 31, 2025.

(1) Financial position

(Assets)

At the end of the fiscal year ended March 31, 2025, current assets were ¥117,011 million, an increase of ¥9,548 million from the previous year. This was mainly due to increases in cash and deposits of ¥8,630 million and merchandise and finished goods of ¥919 million. Non-current assets were ¥66,848 million, an increase of ¥3,560 million from the previous year. This was mainly due to increases in property, plant and equipment of ¥1,756 million and intangible assets of ¥1,061 million.

As a result, total assets were ¥183,859 million, an increase of ¥13,109 million from the previous year.

(Liabilities)

At the end of the fiscal year ended March 31, 2025, current liabilities were ¥58,276 million, an increase of ¥5,003 million from the previous year. This was mainly due to increases in short-term borrowings of ¥3,386 million and notes and accounts payable - trade of ¥2,025 million. Non-current liabilities were ¥11,800 million, an increase of ¥1,033 million from the previous year. This was mainly due to an increase in long-term borrowings of ¥2,000 million, despite a decrease in retirement benefit liability of ¥947 million.

As a result, total liabilities were ¥70,077 million, an increase of ¥6,037 million from the previous year.

(Net assets)

At the end of the fiscal year ended March 31, 2025, total net assets were ¥113,781 million, an increase of ¥7,071 million from the previous year. This was mainly due to increases in retained earnings of ¥3,756 million (profit attributable to owners of parent of ¥12,567 million and dividends of surplus of ¥8,811 million), remeasurements of defined benefit plans ¥1,313 million, and foreign currency translation adjustment of ¥843 million.

As a result, the equity-to-asset ratio is 61.5% (62.5% as of March 31, 2024).

(2) Purchasing and sales status

(i) Purchasing

Purchases by segment for the fiscal year ended March 31, 2025 are as follows.

Segment name		Fiscal year ended March 31, 2025	Year-on-year comparison (%)
Domestic Interior	(Millions of yen)	117,075	103.4
Domestic Exterior	(Millions of yen)	4,278	99.5
Overseas	(Millions of yen)	17,493	127.7
Adjusted amount	(Millions of yen)	(15)	–
Total	(Millions of yen)	138,832	105.9

Note: Inter-segment transactions are offset and eliminated in the adjusted amount column.

(ii) Sales

Sales by segment for the fiscal year ended March 31, 2025 are as follows.

Segment name		Fiscal year ended March 31, 2025	Year-on-year comparison (%)
Domestic Interior	(Millions of yen)	163,986	103.0
Domestic Exterior	(Millions of yen)	6,611	102.3
Overseas	(Millions of yen)	29,794	122.6
Adjusted amount	(Millions of yen)	(13)	–
Total	(Millions of yen)	200,378	105.5

Notes: 1. Inter-segment transactions are offset and eliminated in the adjusted amount column.

2. There are no major business partners to whom more than 10% of total sales are made.

(3) Details of analysis and considerations regarding the status of operating results, etc., from management’s perspective

(i) Details of recognition, analysis, and considerations regarding the status of operating results, etc.

During the fiscal year under review (from April 1, 2024 to March 31, 2025), in the Japanese economy, while consumer confidence weakened due to rising prices, the economy has been showing a moderate recovery trend, supported by improving employment and income environments and recovery in corporate earnings. On the other hand, the outlook remains uncertain due to continued price increases, financial market volatility, and developments in U.S. trade policy.

In the Japanese construction market, which has a direct impact on the Company’s business earnings, there was an increase in new housing starts and floor area in March 2025 due to the rush demand for construction before the revision of Item 4 special rules of the amended Building Standards Act. However, overall, the market remained sluggish, weighed down by persistently high construction costs and labor shortages. In the non-housing market, the number of new housing starts and floor area increased in some areas, but still remained weak. On the other hand, according to a survey on building renovations and renewals released by the Ministry of Land, Infrastructure, Transport and Tourism orders received through the third quarter remained steady, and therefore, the demand for renovations and renewals in the fiscal year under review is expected to increase year on year.

In this business environment, based on the Long-Term Vision [DESIGN 2030], which was revised in May 2023, and the Medium-term Business Plan [BX 2025] (BX: Business Transformation), which was announced at the same time, the Group is strengthening and expanding its core businesses of interior, exterior, overseas, and space solutions business, aiming to transform itself into a Space Creation Company and create next-generation businesses. During the fiscal year under review, we worked to publish main sample books for wallpaper, flooring materials, fabrics, etc. and promote their penetration into the market. We also revised product transaction prices in response to increases in procurement costs, logistics costs, labor costs, and utility costs, etc. Furthermore, we steadily implemented various initiatives outlined in the Medium-Term Business Plan, such as enhancing human capital through engagement improvement measures, expanding recruitment and training, and strengthening supply chain management utilizing digital capital. In addition, we have launched open innovation with startup companies in March 2024 as one of the possibilities for next-generation businesses, starting with the new value-creation base “PARCs Sangetsu Group Creative Hub (“PARCs”)”

Through these corporate activities, we maintained our market share in the Domestic Interior segment despite weak market conditions, and saw growth in medium-sized products and the effects of price revisions. Furthermore, driven by the North American business in the Overseas segment, consolidated net sales increased year on year. In terms of profits, operating profit decreased due to continued increases in procurement costs, increased costs associated with strengthening business infrastructure such as IT and logistics, and increases in personnel expenses.

As a result of these efforts, consolidated financial results for the fiscal year under review recorded ¥200,378 million in net sales, up 5.5% year on year, ¥18,174 million in operating profit, down 4.9% year on year, ¥18,606 million in ordinary profit, down 5.5% year on year and ¥12,567 million in profit attributable to owners of parent, down 12.1% year on year.

The following are the business results in each operating segment.

(Domestic Interior Segment)

For the Domestic Interior segment, despite the challenging external environment, as seen in the decline in new housing starts and floor area, our solution proposals, which combine the Group’s products, design, logistics, and construction capabilities to meet the needs of markets, regions, and customers, have been successful, resulting in expanded sales of products that meet those needs. In addition, the price revisions implemented in December 2024 in response to increases in procurement costs, logistics expenses, labor costs, utility costs, etc. have been steadily absorbed. In terms of quantity for the main product, wallpaper, under the aforementioned challenging external environment, there was a rush in demand before the price revision and a subsequent decline afterward. In the fourth quarter, the impact of the decline continued. However, the impact on market share compared to industry-wide wallpaper shipment volumes remains limited.

As for logistics functions, we have expanded “Service Crews,” which are designed to provide delivery services, restructured the regional delivery system, and introduced unit load systems aimed at labor-saving and manpower reduction, in order to realize more effective and efficient procurement logistics, inter-base logistics, and sales logistics, with an eye on the 2024 logistics issue. Additionally, in April 2025, we made SDS Corporation, a logistics company, which had previously been contracted for our shipping and delivery services, a group company. Going forward, we will strive to further enhance logistics functions through optimization and efficiency improvements in procurement and sales logistics.

Regarding proposals for space solutions, by strengthening proposal activities utilizing the expertise of mid-career hires and the cultivated know-how and business foundation of the Group, we have seen an increase in the number of orders received, as well as the creation and expansion of product sales opportunities based on these proposals.

In product development, we have worked to increase added value by publishing new sample books based on market needs and strengthening product brands through collaborations with external parties, and also promoted market penetration through exhibitions and design contests such as our own Sangetsu Design Award 2024. To further ensure the stable supply of safe and secure products and services, we are accelerating various initiatives aimed at strengthening quality control systems and optimizing the supply chain. As a result of these efforts, for the internationally renowned "iF Design Award," following our wallpaper product made from recycled resources, "MEGUReWALL," which was awarded last year, our collaboration wallpaper with the National Museum of Nature and Science, "Day and Night Science Museum," received the "iF Design Award 2025."

Additionally, due to the impact of a fire at one of our supplier's factories in December 2024, we have suspended orders for certain flooring products since February 2025. However, during the fiscal year ending March 31, 2026, we plan to rebuild the supply system through alternative production, etc. and gradually resume sales around the second quarter.

As a result, the Domestic Interior segment recorded net sales of ¥163,986 million (up 3.0% year on year) and operating profit of ¥18,940 million (down 2.8% year on year). Furthermore, the Wall Covering Unit recorded net sales of ¥78,644 million (up 1.8% year on year), the Flooring Unit recorded net sales of ¥57,377 million (up 1.8% year on year), the Fabrics Unit recorded net sales of ¥9,609 million (up 1.1% year on year), and others including design fees and construction recorded net sales of ¥18,354 million (up 14.3% year on year).

Although the business environment is expected to remain challenging due to factors such as a gradually shrinking market caused by population decline, etc. and rising purchase prices, logistics costs, personnel expenses, etc., we will strengthen the ability to propose solutions that meet market needs and social issues, and strive to develop high value-added products and create new business models. In addition to deepening the existing interior product-based business, we recognize that it is urgent to establish a specialized business model and build a business foundation in the space solutions business, which has potential for growth over the medium to long term. We will steadily implement measures to improve profitability.

(Domestic Exterior Segment)

For the Domestic Exterior segment, the overall exterior market continued to face difficult conditions due to the slump in new housing starts, which is the main market. Under such circumstances, at our group company, Sungreen Co., Ltd., sales increased because sales at the two new branches in the Kanto region, established as part of geographical expansion strategies, exceeded our plans, and also due to the passing on of price increases from major manufacturers to sales prices, and a rush in demand before price increases by other manufacturers. In the proposal business, including exterior space design and construction, sales activities aimed at expanding sales channels and expanding construction areas have been successful, leading to an increase in orders. Furthermore, initiatives aimed at creating new added value and enhancing competitive advantages through collaboration with the space solutions business of the Company are also progressing.

As a result, net sales of the Domestic Exterior segment were ¥6,611 million (up 2.3% year on year), and operating profit was ¥17 million (operating loss of ¥77 million for the previous fiscal year).

At Sungreen Co., Ltd., which is responsible for this segment, costs for establishing new bases and expanding business areas have been incurred in advance, and revenue levels have not reached those anticipated when the Medium-term Business Plan was formulated. In addition to expanding the product lineup to strengthen the exterior product wholesale business, which is our core business, we will build a foundation for the space solutions business, promote interior and exterior integrated proposals, and strengthen collaboration with the Company to implement measures that leverage group synergies.

(Overseas Segment)

In the Overseas segment, the results of overseas subsidiaries and associates over the period from January to December 2024 are included in results for the fiscal year under review.

In North America, sales increased, mainly driven by the effect of price revisions of self-manufactured wallpapers, in addition to sales growth of self-manufactured wallpapers in the mainstay hotel segment and increased sales volumes of strategic products in segments other than the hotel segment. In the profit aspect, although there were increases in manufacturing costs to maintain quality and personnel expenses, including performance-based bonuses, profits increased compared to the previous fiscal year due to higher sales and improved defect rates.

In Southeast Asia, our Group incorporated D'Perception Pte Ltd, a company engaged in space design and general construction, with the aim of creating synergies with our existing interior product wholesale business. As a result of this initiative, along with sales growth in Malaysia and Thailand within the wholesale business, sales in these regions increased year on year. On the other hand, in Singapore, our main market, the impact of reduced orders became significant, leading to an expanded deficit for the full year. However, through cost optimization, the deficit for the fourth quarter was reduced compared to the third quarter. In addition, in April 2025, we renewed the management structure.

In China and Hong Kong, the situation remains challenging due to factors such as a sluggish real estate market and declining consumer confidence caused by the deterioration of the employment situation. There were also temporary expenses incurred for measures aimed at returning to profitability, and as a result, the operating loss widened in the fourth quarter. However, we are working to reform the management structure in Hong Kong, increase sales through the expansion of customer bases and sales channels, and optimize costs through organizational restructuring.

As a result, net sales of the Overseas segment were ¥29,794 million (up 22.6% year on year), and operating loss was ¥785 million (operating loss of ¥311 million for the previous fiscal year) mainly due to deteriorating performance in Asia, and an increase in selling, general and administrative expenses, including temporary expenses related to the acquisition of shares in D'Perception Pte Ltd. recorded in the first quarter and organizational restructuring expenses associated with the consolidation of the company, while revenue and profit continued to increase in North America.

In North America, which is the largest business scale in this segment, we will accelerate the growth strategy, including strengthening existing businesses and taking on challenging new business, under management with leadership and excellent management skills.

In Asia, we will reform the management structure and review the organization of the existing distribution business, which has been slow to recover, and work to achieve an early return to profitability and establish a solid earning base. On the other hand, with regard to the Design & Build business that we entered into during the fiscal year under review, with D'Perception Pte Ltd, which became a Group company, as the lever, we will aim to create synergies across the entire Group, including corporation with the Company.

(ii) Analysis and review of the status of cash flows, and information on capital resources and liquidity of funds

As of the end of the fiscal year under review, cash and cash equivalents ("funds") totaled ¥33,445 million, an increase of ¥8,727 million compared to the previous year.

Cash flow positions and the factors thereof, and the details of their analysis and consideration are as follows.

(Cash flows from operating activities)

Funds provided by operating activities were ¥19,260 million (¥12,818 million provided in the previous fiscal year). This was mainly due to profit before income taxes of ¥18,695 million, depreciation of ¥3,180 million, a decrease in trade receivables of ¥3,751 million, and income taxes paid of ¥5,541 million.

Various initiatives to strengthen supply chain management have been successful, including the negotiations with customers and the transition from settlement of note receivables to electronically recorded monetary claims, which have resulted in the early collection of funds. As a result, we recognize that the ability to generate operating cash flow has steadily improved.

(Cash flows from investing activities)

Funds used in investment activities were ¥6,873 million (¥1,846 million used in the previous fiscal year). This was mainly due to purchase of property, plant and equipment of ¥4,741 million and purchase of shares of subsidiaries resulting in change in scope of consolidation of ¥1,817 million.

Based on the growth strategy set out in the Long-term Vision [DESIGN 2030] and the Medium-term Business Plan (2023–2025) [BX 2025], the Group aims to achieve sustainable growth by transforming into a Space Creation Company with strong profitability and growth potential, and we intend to steadily make growth investments with an eye to the future. Under this policy, we will continue to invest in the establishment of a new factory by CREANATE Inc. to achieve a sustainable and stable supply of wallpaper. At the same time, with the aim of creating synergies across the entire Group, we have acquired 70% of the shares of D'Perception Pte Ltd, whose business area is Design & Build, and made it a Group company.

(Cash flows from financing activities)

Funds used in financing activities were ¥3,980 million (¥11,249 million used in the previous fiscal year). This was mainly due to proceeds from borrowing funds of ¥28,596 million, repayments of borrowings of ¥23,208 million, and dividends paid of ¥8,802 million.

The payment of dividends is being increased in a stable manner in accordance with the capital policy in the Medium-term Business Plan (2023–2025) [BX 2025].

The Group recognizes cash and cash equivalents in the consolidated statements of cash flows, as well as financial assets that can easily be converted into cash and cash equivalents, as cash and cash equivalents. Based on cash and cash equivalents, we use funds obtained through operating cash flow and external fund raising through borrowings as financial resources for various growth investments and shareholder returns through our capital policy. We also pay close attention to our net cash balance in order to maintain a balance between cash on hand and interest-bearing liabilities. The status of our cash and cash equivalents and net cash at the end of the fiscal year ended March 31, 2025 is as follows.

(Millions of yen)

	As of March 31, 2024	As of March 31, 2025
(1) Cash and cash equivalents in consolidated statement of cash flows	24,717	33,445
(2) Time deposits with maturity over 3 months	379	282
(3) Securities	300	300
(4) Investment securities (excluding shares)	–	–
Cash and cash equivalents - balance	25,396	34,027

(Millions of yen)

	As of March 31, 2024	As of March 31, 2025
(1) Cash and cash equivalents	25,396	34,027
(2) Short-term borrowings	(5,711)	(9,098)
(3) Current portion of long-term borrowings	–	–
(4) Long-term borrowings	–	(2,000)
Net cash - balance	19,685	22,929

The three-year fund allocation plan in the Medium-term Business Plan (2023-2025) [BX 2025] is as described in “1. Management policy, management environment, issues to be addressed, etc. - (1) Objective indicators for determining the status of achievement of management policies and management targets.” In view of the Sangetsu Group Long-term Vision [DESIGN 2030], we intend to steadily implement necessary growth investments for future business expansion and shareholder returns based on our capital policy. Regarding the source of funds, we will aim to maximize operating cash flow by expanding earnings, while flexibly utilizing external borrowing according to capital needs for growth investments.

(4) Objective indicators for determining the status of achievement of management policies, management strategies, and management targets

The Group considers ROE (return on equity) to be an important management metric. As a quantitative target in the Medium-term Business Plan (2023-2025) [BX 2025], we have been implementing growth strategies with the aim of achieving a ROE of 14.0% in FY2025, which is the final fiscal year of the plan. However, in the Domestic Exterior Segment and Overseas Segment, the former incurred upfront costs for growth investments, while the latter has yet to establish a sufficient earning base due to delays in business improvements in Asia, etc. Therefore, results have not been consistent with the earnings forecast set forth in the Medium-term Business Plan. In addition, the factory fire that occurred at one of our suppliers in late December 2024 has affected the supply of certain flooring materials, which is expected to have a negative impact on performance.

Considering these circumstances, as announced on May 14, 2025, we have revised some of the quantitative targets for FY2025, which is the final fiscal year of the Medium-term Business Plan. We are aiming to achieve the revised performance targets of consolidated net sales of ¥210,000 million, consolidated operating profit of ¥19,000 million, consolidated net profit of ¥13,000 million, ROE of 11.5%, ROIC of 14.0%, and a CCC (cash conversion cycle) of 70 days.

ROE for the fiscal year ended March 31, 2025 was 11.4%. As mentioned above, ROE decreased by 2.7 points year on year. This was primarily due to the failure to achieve profit targets in the Domestic Exterior Segment and Overseas Segment, the decline in profits due to the impact of the factory fire that occurred at one of our suppliers in the Domestic Interior Segment, and an increase in equity mainly caused by the rise in the fair value of shares held and an increase in remeasurements of defined benefit plans due to rising interest rates. The Group aims to further enhance corporate value both through steady earnings growth driven by growth investments aimed at deepening and transforming the business model, and through appropriate shareholder return based on profit levels and capital efficiency. We will continue to implement measures aimed at achieving quantitative targets, including ROE, based on a balance between growth investment and shareholder return.

Progress of Medium-term Business Plan (2023–2025) [BX 2025]

	FY2025 (Target) *Before revision	FY2025 (Target) *After revision	FY2023 (Results)	FY2024 (Results)
Consolidated net sales	¥195,000 million	¥210,000 million	¥189,859 million	¥200,378 million
Consolidated operating profit	¥20,500 million	¥19,000 million	¥19,103 million	¥18,174 million
Consolidated net profit	¥14,500 million	¥13,000 million	¥14,291 million	¥12,567 million
ROE	14.0%	11.5%	14.1%	11.4%
ROIC	14.0%	14.0%	14.8%	13.7%
CCC	65.0 days	70.0 days	71.5 days	72.0 days

5. Material contracts, etc.

There are no items to report.

6. Research and development activities

The Group plans, develops, and sells approximately 12,000 products, including wall coverings, flooring materials, and fabrics (curtains and chair fabrics), under the Sangetsu brand. Of the approximately 30 major sample books, about one-third of the products are renewed every year.

Currently, based on the product development and planning capabilities and network we have cultivated over the years, we are promoting “market-driven” development that meets market needs and anticipates market trends. At the same time, we are working to advance product development by combining the various functions and know-how of Group companies in Japan and overseas, including the space solutions business, which handles design and general construction of interior spaces, and wallpaper manufacturers, across the value chain. Furthermore, we are promoting open innovation, such as collaborations with global brands and strengthening cooperation with partner companies, with the aim of expanding the product lineup and enhancing brand value.

In addition, another major theme that we have been emphasizing in product development in recent years is initiatives to solve social issues such as climate change, resource recycling, and labor shortages. For example, addressing environmental issues centered on climate change is a global challenge, and there is a growing trend among customers and consumers to consider environmental impact as a key factor in their product selection. The construction market in which the Group belongs is no exception, and there are an increasing number of cases in which products that emphasize CO2 reduction and the use of recycled materials are selected from the design stage of construction. Based on addressing these social issues and accurately grasping market needs, the Group contributes to improving the global and living environments through the development and sale of environmentally friendly products based on the three pillars of “energy conservation,” “resource conservation,” and “long life.”

As for quality control, we established the Quality Control Technology Department in 2015 to strengthen the quality control system for the products we handle. We ensure thorough quality control through multifaceted evaluation of suppliers based on our own evaluation criteria and by encouraging them to make improvements. At each stage of product development, we have established the “design review” as a verification process, and in the Space Planning Division, each product unit responsible for product development and related departments, including the Quality Control Technology Department, cooperate and hold frequent discussions to ensure quality. In addition, in the organizational restructuring in April 2025, we established a new Quality Management Department to further strengthen the quality control system.

Furthermore, we have established a new SCM Planning Department to plan measures and a new SCM Operations Department to implement measures, as organizations that manage procurement, ordering, inventory control, etc. in supply chain management, including Group companies and suppliers.

As a result, total research and development expenses for the Group as a whole for the fiscal year under review recorded ¥677 million. Of this amount, ¥353 million was incurred in the Domestic Interior Segment and ¥323 million in the Overseas Segment.

II. Information about the Reporting Company

1. Dividend policy

Based on the capital policy in the Medium-term Business Plan (2023-2025) [BX 2025], the Company has established the basic policy that dividends are the main source of shareholder returns, with a minimum annual dividend of 130 yen per share, with the aim of steadily increasing dividends.

In addition, the Company's basic policy on dividend payments is to pay dividends twice a year in the form of interim dividends and year-end dividends.

The decision-making bodies for these dividends of surplus are the General Meeting of Shareholders for year-end dividends and the Board of Directors for interim dividends.

Based on the above policy, the year-end dividend for the fiscal year under review will be 75 yen per share, which, combined with the interim dividend of 75 yen, will result in an annual dividend of 150 yen.

The Company's Articles of Incorporation stipulate that "interim dividends may be paid by resolution of the Board of Directors, with September 30th of each year as the record date."

Dividends of surplus for the fiscal year under review were as follows.

Date of resolution	Total amount of dividends (Millions of yen)	Dividends per share (Yen)
Resolution at the Board of Directors meeting held on November 8, 2024	4,407	75.00
Resolution at the General Meeting of Shareholders held on June 18, 2025 (scheduled) (Note)	4,407	75.00

Note: This is a year-end dividend with a record date of March 31, 2025, and is scheduled to be submitted as an agenda item (resolution matter) at the Ordinary General Meeting of Shareholders scheduled to be held on June 18, 2025.

2. Status of corporate governance, etc.

(1) Overview of corporate governance

(i) Basic policy regarding corporate governance

We are aiming to build good relationships with all of our stakeholders and grow sustainably in order to increase our corporate value.

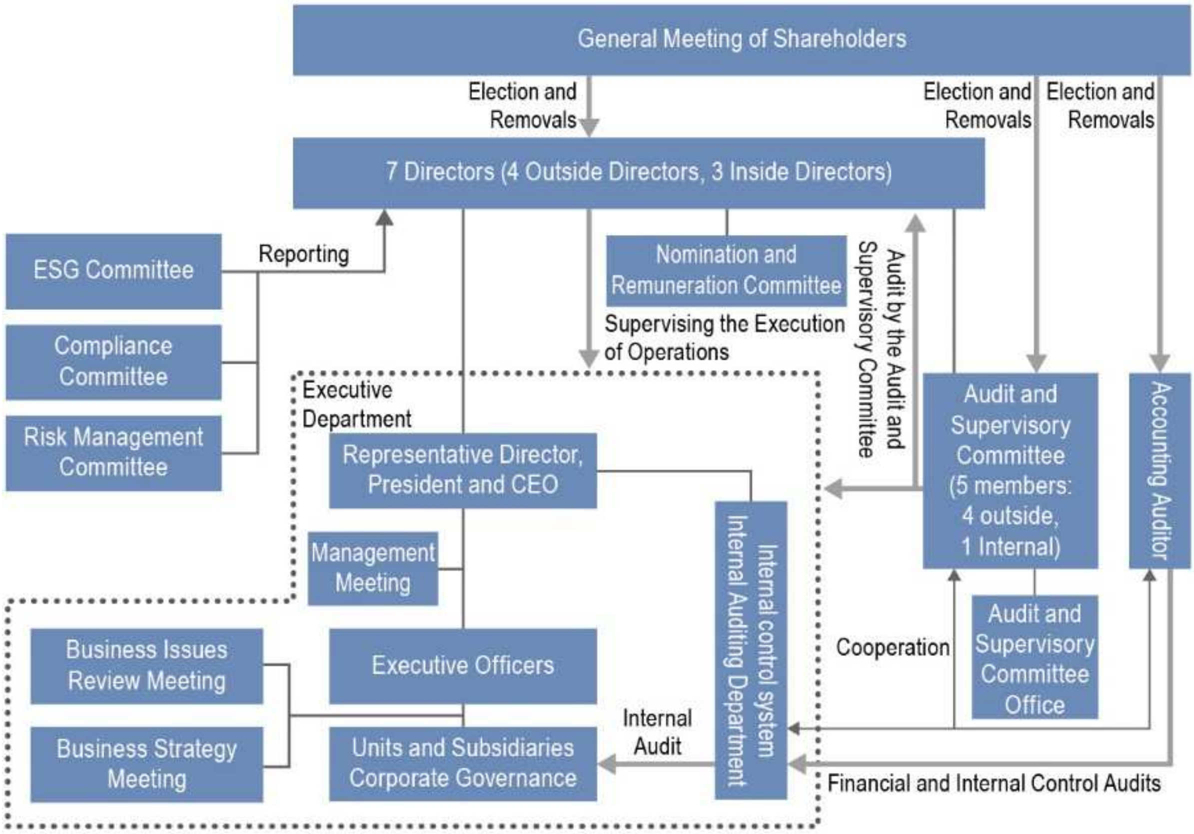
To achieve this, we recognize that strengthening corporate governance based on the transparency, speed, and efficiency of management is an important management issue.

The Company is transitioning to a company with an audit and supervisory committee with the aim of strengthening the auditing and supervisory functions of the Board of Directors by having outside directors participate in management.

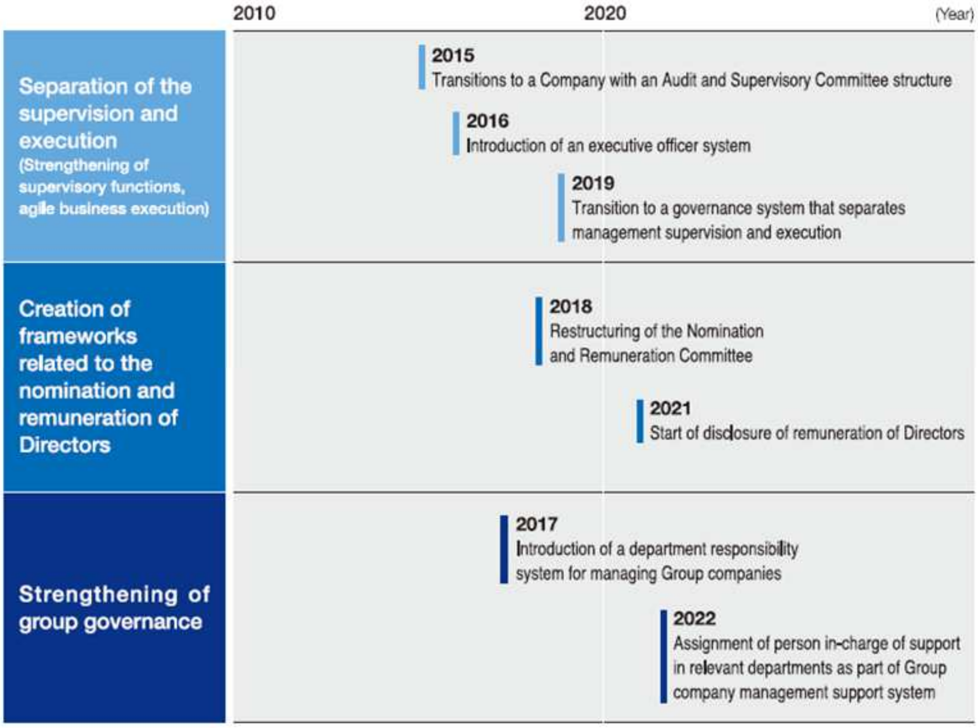
We are striving to further increase our corporate value under this governance structure.

(ii) Summary of system of corporate governance and reasons for adopting the system

a. Diagram of company organization and internal control system



b. Changes in strengthening governance structure



c. Summary of the system of corporate governance

As of the filing date of this report (June 17, 2025), our corporate governance structure consists of a Board of Directors, an Audit and Supervisory Committee, and an Accounting Auditor; there are seven Directors (including five Audit and Supervisory Committee Members), four of whom are Outside Directors who are also Audit and Supervisory Committee Members.

(1) Board of Directors and Nomination and Remuneration Committee

Our Board of Directors consists of seven members: Representative Director, President and CEO Yasumasa Kondo, Director Executive Officer Fumio Takagi, Outside Director Michiyo Hamada, Outside Director Kenichi Udagawa, Outside Director Osamu Terada, Outside Director Aki Ogane, and Director Yosuke Mine, and is chaired by the Representative Director, President and CEO Yasumasa Kondo.

In principle, the Board of Directors meets once a month to share company management information in a timely manner and implements appropriate measures. Directors who are Executive Officers and other Executive Officers carry out their duties in accordance with laws and regulations, the Articles of Incorporation, the Board of Directors regulations, and other internal company rules. Regarding the execution of duties by Directors who are Executive Officers and other Executive Officers, the Representative Director, President and CEO proposes the allocation of duties to each individual, which is approved by the Board of Directors. The appointment and remuneration of Directors who are Executive Officers and Executive Officers are decided by the Board of Directors after deliberation by the Nomination and Remuneration Committee, an internal organization of the Board of Directors. In addition, the Nomination and Remuneration Committee deliberates matters such as the formulation of a succession plan for the CEO and an objective system regarding the remuneration of management. The Nomination and Remuneration Committee is composed of all Outside Directors who are Audit and Supervisory Committee Members and the Representative Director, President & CEO, and the chair of the Nomination and Remuneration Committee is Outside Director Michiyo Hamada.

In the fiscal year under review, the Company convened 14 meetings of the Board of Directors and 12 meetings of the Nomination and Remuneration Committee, and the status of attendance and activities of each Director is as follows.

Activity status of the Board of Directors

Name	Full-Time / Outside	Attendance Status (14 meetings in total)
Yasumasa Kondo	Full-Time	14
Fumio Takagi	Full-Time	11
Shosuke Yasuda	Full-Time	3
Michiyo Hamada	Outside	14
Kenichi Udagawa	Outside	14
Osamu Terada	Outside	14

Aki Ogane	Outside	11
Masatoshi Hatori	Outside	3
Yosuke Mine	Full-Time	11
Shuji Sasaki	Full-Time	3

Notes: Attendance status for Fumio Takagi, Aki Ogane and Yosuke Mine is for meetings held since their assumption of office on June 19, 2024.

Fumio Takagi is scheduled to retire as of the 73rd Ordinary General Meeting of Shareholders to be held on June 18, 2025.

Shosuke Yasuda retired as of the 72nd Ordinary General Meeting of Shareholders held on June 19, 2024.

Masatoshi Hatori and Shuji Sasaki resigned as of the 72nd Ordinary General Meeting of Shareholders held on June 19, 2024.

Main discussion topics at Board of Directors meetings

Discussion topics	Specific details of discussion
Internal governance and risk management	Several times throughout the year, the basic policy regarding the internal control system, the status of internal control activities, and the status of activities of various committees aimed at responding to individual risks recognized by the Company (Risk Management Committee, Compliance Committee) were reported on and discussed, and the status of internal control activities and the operational status of risk management within the Group were deliberated.
ESG	Based on the Company's ESG and CSR Policies, the ESG Committee's activities and the initiatives it has considered and implemented were reported to and discussed at the Board of Directors, enabling the Board of Directors to monitor and supervise ESG-related initiatives.
Management strategy	Progress on the Long-term Vision [DESIGN 2030] and the new Medium-term Business Plan [BX 2025] was monitored, and discussions were held on achieving the plans. In addition, deliberation was held on investments to further strengthen and expand the business foundation based on the growth strategies outlined in these plans.
Effectiveness of the Board of Directors	In order to enhance the transparency and efficiency of the Board of Directors, discussions were held on the operational policies and structure of the Board of Directors based on the results of the evaluation of the effectiveness of the Board of Directors, and efforts were made to accelerate the decision-making process.
Strengthening supply chain management	Discussions were held on further strengthening the functions that support the business, such as procurement, inventory, order reception, delivery, and construction, as well as thorough quality control and the establishment of a stable supply system, with the aim of optimizing, improving efficiency, and advancing the entire supply chain.
Organization and executive system	With a view to the Long-term Vision, deliberations were held on further strengthening and advancing the business foundation of the core business, interior product sales, transforming the business model to provide solution proposals utilizing various functions related to space creation, and reorganizing the organization and management execution structure to implement each growth strategy.
Supervision of status of Group companies	Discussions were held on management structures and strategies for the sustainable growth of Group companies. In particular, based on on-site audit reports from Audit and Supervisory Committee Members, management issues and risk response measures were discussed for overseas Group companies, and the Board of Directors exercised oversight and supervision.

Evaluation of the effectiveness of the Board of Directors

As part of the Company's efforts to ensure the effectiveness of the Board of Directors in terms of its decision-making, supervision, and meeting management, each director performs an annual self-evaluation of the Board of Directors, after which an analysis and evaluation of the effectiveness of the Board of Directors as a whole is conducted.

For the FY2024 evaluation, a questionnaire survey was conducted with all directors in May 2025, and the evaluation results were deliberated at Board of Directors meetings. Going forward, the Company will strive to raise the level of effectiveness of the Board of Directors even further.

The main evaluation items for FY2024 included an evaluation of the role, responsibilities, composition, and operation of the Board of Directors, an evaluation of the role of Outside Directors, and an evaluation of the Nomination and Remuneration Committee.

Activity status of the Nomination and Remuneration Committee

Name	Full-Time / Outside	Attendance Status (12 meetings in total)	Specific details of discussion
Michiyo Hamada	Outside	12	• Consideration of the composition of the Board of Directors • Consideration of candidates for Director • Consideration of new organizational structure and personnel based on growth strategy • Consideration of medium-long term candidates for Executive Officer and key personnel • Evaluation of Executive Officers and review of the evaluation system
Kenichi Udagawa	Outside	12	
Osamu Terada	Outside	11	
Aki Ogane	Outside	8	
Masatoshi Hatori	Outside	4	
Yasumasa Kondo	Full-Time	12	

Notes: Attendance status for Aki Ogane is for meetings held since her assumption of office on June 19, 2024.
Masatoshi Hatori resigned as of the 72nd Ordinary General Meeting of Shareholders held on June 19, 2024.

* The Company proposes agenda items as resolution matters to the Ordinary General Meeting of Shareholders scheduled to be held on June 18, 2025, which are "Election of Two (2) Directors (Excluding Audit and Supervisory Committee Members)" and "Election of Five (5) Directors Serving as Audit and Supervisory Committee Members." If these agenda items are approved, the number of the Company's Directors will be seven: Representative Director, President & CEO Yasumasa Kondo, Director Executive Officer Yutaka Matsuo, Outside Director Michiyo Hamada, Outside Director Kenichi Udagawa, Outside Director Osamu Terada, Outside Director Aki Ogane, and Director Yosuke Mine. The Board of Directors will consist of the above seven members and is planned to be chaired by the Representative Director, President & CEO Yasumasa Kondo. In addition, the Nomination and Remuneration Committee is planned to be composed of all Outside Directors who are Audit and Supervisory Committee Members and the Representative Director, President & CEO, and the chair of the Nomination and Remuneration Committee is planned to be an Outside Director. (The resolution matters of the Board of Directors scheduled to be held immediately after the relevant Ordinary General Meeting of Shareholders are included.)

Succession plan

The Company is overseeing the succession planning for the CEO and other positions and its implementation status based on the Company's management philosophy and specific management strategies, and is discussing it in light of criteria such as personality and popularity, insight, business execution capabilities, management perspective, and awareness of participation in management. Regarding the nomination of key personnel and Executive Officers, the Nomination and Remuneration Committee deliberates on the succession plan for the CEO and other positions (including steps such as succession plans, required qualifications, and candidate selection), the process and background leading to the selection of a successor CEO, and the proposal for the dismissal of the CEO and the process and background leading to such proposal, and provides explanations and proposals to the Board of Directors as necessary.

Nurturing of successors

As for nurturing, we utilize internal selection systems such as leadership development training and senior management (candidates for Executive Officers) training as a pool of human resources with promising future potential. In addition, when considering candidates for Executive Officers and senior management, we have established a system that provides many opportunities to directly understand the personalities and ways of thinking of candidates for succession through measures such as having Outside Directors participate in important meetings other than the Board of Directors meetings and conducting individual interviews with senior management employees regarding future management. This system is utilized in discussions within the Nomination and Remuneration Committee.

Important matters regarding nurturing successors

・ Consideration of the medium-long term succession plan for the CEO
・ Review of the appropriate conditions and qualifications required of the CEO
・ Consideration of medium-long term candidates for Executive Officer and key personnel
・ Diversification of the opportunities to check the progress of nurturing a successor within a certain time frame

(2) Audit and Supervisory Committee

The Audit and Supervisory Committee is composed of Outside Director Michiyo Hamada, Outside Director Kenichi Udagawa, Outside Director Osamu Terada, Outside Director Aki Ogane, and Director Yosuke Mine, and is chaired by Outside Director Kenichi Udagawa.

The Audit and Supervisory Committee's Audit Report is discussed and prepared by the Audit and Supervisory Committee after receiving reports from each Member. As part of our efforts to strengthen the function of the Audit and Supervisory Committee, we have established an Audit and Supervisory Committee Office and appointed one full-time Audit and Supervisory Committee Member, as well as one full-time staff member and one part-time staff member, to ensure close cooperation with the Auditing Section and Internal Control Section, which are the sections responsible for internal auditing.

* The Company proposes an agenda item as resolution matters to the Ordinary General Meeting of Shareholders scheduled to be held on June 18, 2025, which is "Election of Five (5) Directors Serving as Audit and Supervisory Committee Members." If this agenda item is approved, the Audit and Supervisory Committee will consist of five Members: four Outside Directors (Michiyo Hamada, Kenichi Udagawa, Osamu Terada, Aki Ogane) and Director Yosuke Mine. In addition, Director Yosuke Mine is planned to be a Full-Time Audit and Supervisory Committee Member, and the chairperson is planned to be an Outside Director. (The resolution matters of the Audit and Supervisory Committee scheduled to be held immediately after the relevant Ordinary General Meeting of Shareholders are included.)

The status of the Audit and Supervisory Committee's activities during the fiscal year under review is as described in "(3) Information about audits - (a) Information about audits by the Audit and Supervisory Committee."

d. Reasons for adopting the corporate governance system

The Company is a company with an audit and supervisory committee, and has appointed five directors (four of whom are Outside Directors) to serve as Audit and Supervisory Committee Members. The Audit and Supervisory Committee Members who are responsible for the auditing function have been given voting rights as Directors at Board of Directors meetings, which will lead to the strengthening of the audit and supervisory functions. Further, the Company has determined that by making all of the independent outside directors, who are rare human resources, members of the Board of Directors, we can increase the ratio of Outside Directors on the Board of Directors, such that improvement of management transparency and management discussions that take into account the perspectives of shareholders can be expected.

Additionally, we have introduced an executive officer system to further grow the Group and strengthen the corporate governance structure. By separating management decision-making and supervisory functions from business execution functions, we aim to clarify the responsibilities for execution and expedite the execution of business operations.

(iii) Other matters regarding corporate governance

a. Status of the development of internal control systems

The Company's Board of Directors has determined basic policies regarding the establishment of an internal control system, and is conducting appropriate corporate activities as follows.

I. System to Ensure the Propriety of the Business Operations

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

In addition, monthly reports shall be made to the Company's Board of Directors in order to manage the various risks. Furthermore, regulations handling risks shall be put in place by subsidiaries themselves, thereby adding to the system for risk management.

(3) System to ensure that subsidiary Directors execute their duties efficiently
Subsidiary and Associates Management Regulations and Standards for Matters at Subsidiaries and Associates 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

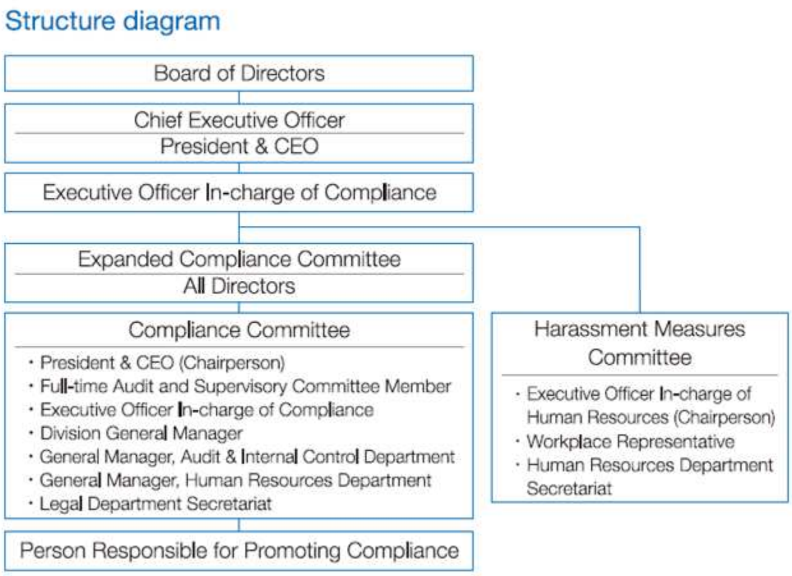
1. Matters relating to employees who assist in the duties of the Audit and Supervisory Committee
   (1) In order to assist the Audit and Supervisory Committee, the Company shall establish the Audit and Supervisory Committee Office with employees who serve dedicated and concurrently with their other posts.
   (2) Assignments, transfers, and evaluations for employees belonging to the Audit and Supervisory Committee Office 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 Office 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 Office 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 Office who serve concurrently with other posts shall carry out the instructions given by Audit and Supervisory Committee Members as top priority.
2. Systems relating to the reporting to the Audit and Supervisory Committee
   (1) Audit and Supervisory Committee Members shall receive reports regularly from Directors and Executive Officers on the status of execution of duties in charge at the Board of Directors. In addition, Audit and Supervisory Committee Members shall receive reports regularly on the status of the Boards of Directors of subsidiaries from Directors and Auditors dispatched to the Company's subsidiaries.
   (2) Directors and Executive Officers shall, in the event of situations that may cause significant damage to the Company, swiftly report such matters to Audit and Supervisory Committee personally or through the heads of relevant departments.
   (3) Audit and Supervisory Committee Members designated by Audit and Supervisory Committee shall attend important meetings, examine records, minutes, or other documents related to the execution of business, and request as necessary explanations from Directors, Executive Officers, or employees.
   (4) Audit and Supervisory Committee Members designated by Audit and Supervisory Committee shall visit subsidiaries, and examine records, minutes, or other documents related to the execution of business, and request as necessary explanations from subsidiary Directors or employees.
   (5) Officers and employees of the Group may report compliance problems directly to Audit and Supervisory Committee or its members without using the Company's helpline. In such case, the Company prohibits any adverse treatment based on the fact that such a report has been made by the person.
3. Items concerning policies for handling of expenses and debts arising from the execution of duties by the Audit and Supervisory Committee
   (1) All expenses necessary for the duties of Audit and Supervisory Committee shall be recorded in an independent budget every fiscal period and processed promptly based on expense payment standards.
   (2) Audit and Supervisory Committee, on its own initiative, may use external experts, etc., where necessary, and the Company shall then bear those expenses.
4. Other Systems to ensure that Audit and Supervisory Committee execute their audits effectively
   (1) With the aim of effective audit execution, Audit and Supervisory Committee shall cooperate with the internal audit department and internal control department.
   (2) Audit and Supervisory Committee shall formulate the policy and plan for audit annually and report them to the Board of Directors.
   (3) In order to enhance auditing effectiveness, Audit and Supervisory Committee shall receive reports on the status of responses to issues identified in the audits at the Board of Directors meetings or on other occasions, and give feedback to them.
   (4) Audit and Supervisory Committee shall exchange information regularly on matters including audits with President and CEO and Accounting Auditor.

b. Basic approach to the exclusion of antisocial forces and the status of implementation

・ The Group does not maintain any relationships whatsoever with antisocial forces, will respond resolutely to any unreasonable demands made by antisocial forces, and will resolutely sever and eliminate any relationships with antisocial forces.
Furthermore, in accordance with the spirit of the Sangetsu Group Compliance Code of Conduct and the Risk Management Regulations, the Risk Management Committee will oversee the response, ensure smooth communication of information within the Company, and respond in coordination with relevant departments and adviser lawyers.

Also, we regularly collect necessary information through coordination with the Aichi Prefectural Police, local police stations, and other relevant government agencies, as well as by coordinating with external specialist organizations, such as by registering with the Aichi Prefecture Corporate Defense Council.

c. Establishment and operational status of compliance system
- The Compliance Committee has been held four times in the fiscal year ended March 31, 2025, where they reviewed the compliance program from its formulation to its revision using the PDCA cycle, and discussed measures to prevent harassment.
- During the fiscal year ended March 31, 2025, there were 14 consultations through the helpline, and each case was responded to appropriately.
- Basic compliance trainings were provided to both new managers and new employees respectively.



d. Establishment and operational status of risk management system
- The Risk Management Committee consists of eight subcommittees (sales risk, logistics risk, product development, inventory and purchase risk, overseas business risk, human risk, environment and disaster risk, information security risk, and climate change risk).
- The Risk Management Committee met four times during the fiscal year ended March 31, 2025 and each subcommittee assumed potential risks, assessed each risk, and examined its importance, then reported on the progress of countermeasures and the results of discussions regarding achievements and issues.
- A risk assessment map is used to conduct risk management evaluations in a stepwise manner, aiming to reach a state in which the control level of each risk is grasped and is being effectively managed.
- In the above risk management, the Company has clarified important management risks based on frequency and impact, and defined large-scale system failures, cyber security risks, product quality maintenance, and delivery risks as the most important management risks. In order to make the BCP system more effective, in consultation with relevant departments, the Company is promoting the formulation of BCM, a review of the organization chart of the emergency response headquarters, and formulation of assumed scenarios.
- Regarding communication methods with each location in the event of an emergency, the Company has introduced the safety confirmation system “e-Innovation” to domestic group companies (excluding some) and conducted joint drills.

As for risk management system as of the filling date of this report, please refer to “1. Approach to risk management and risk management system in 3 Business risks.”

(iv) Overview of limited liability agreements

The Company has concluded an agreement with each non-executive Director as per the provisions of Article 427, paragraph 1 of the Companies Act of Japan, limiting their liability for compensation for damage under Article 423, paragraph 1 of the Companies Act of Japan. These agreements limit the amount of their liability for compensation for damage to the minimum legally stipulated amounts.

(v) Overview of a directors and officers liability insurance policy

The Company has concluded a directors and officers liability insurance policy with an insurance company, as stipulated in Article 430-3, paragraph 1 of the Companies Act of Japan. The insured persons of this insurance policy include Directors and Executive Officers of the Company and Officers of the subsidiaries, and the Company bears all insurance premiums. This insurance policy covers compensation for damages to be borne by the insured persons in the event of claims made during the term of the policy against them regarding the execution of their duties. However, measures are taken so that the properness of the performance of duties by officers, etc., is not impaired by excluding damage caused as a result of any conduct committed while knowing that the conduct is in violation of laws and regulations from the scope of compensation.

(vi) Maximum number of directors

The Company's Articles of Incorporation stipulate that the number of Directors (excluding those who are Audit and Supervisory Committee Members) shall be four or less, and the number of Directors who are Audit and Supervisory Committee Members shall be eight or less.

(vii) Requirements for resolutions regarding the appointment of directors

The Company's Articles of Incorporation stipulate that resolutions to elect Directors shall be made by a majority vote at a shareholders' meeting attended by shareholders holding at least one-third of the total voting rights of shareholders who are able to exercise voting rights.

In addition, the Articles of Incorporation stipulate that resolutions for the appointment of directors shall not be based on cumulative voting.

(viii) Exemption of Directors from liability

The Company provides in its Articles of Incorporation that, pursuant to the provisions of Article 426, paragraph (1) of the Companies Act, it may exempt Directors (including former Directors) from liability as set forth in Article 423, paragraph (1) of the said Act within the limits stipulated by laws and regulations based on a resolution of the Board of Directors. The purpose of this is to enable Directors to sufficiently fulfill the roles expected of them in carrying out their duties.

(ix) Decision-making body for the acquisition of treasury shares

Pursuant to Article 165, Paragraph (2) of the Companies Act, the Company's Articles of Incorporation stipulate that the Company may acquire treasury shares through market transactions, etc., by resolution of the Board of Directors. The purpose of this is to enable a flexible capital policy by giving the Board of Directors the authority to acquire treasury shares.

(x) Decision-making body for interim dividends

Pursuant to Article 454, Paragraph (5) of the Companies Act, the Company's Articles of Incorporation stipulate that interim dividends may be paid by resolution of the Board of Directors, with September 30th of each year as the record date. The purpose of this is to ensure the timely return of profits to shareholders.

(xi) Special resolution requirements for general meetings of shareholders

Regarding the requirements for special resolutions at general meetings of shareholders as defined in Article 309, Paragraph (2) of the Companies Act, the Company's Articles of Incorporation stipulate such resolutions shall be made by at least two-thirds majority vote at a meeting attended by shareholders holding at least one-third of the total voting rights of shareholders who are able to exercise voting rights. The purpose of this is to ensure the smooth running of general meetings of shareholders by relaxing the quorum required for special resolutions at such meetings.

(xii) Basic Policy on Control of the Stock Company

The Company has not established a basic policy regarding the entity that controls decisions regarding the financial and business policies of the corporation pursuant to Article 118, Paragraph (3) of the Enforcement Regulations of the Companies Act.

(xiii) Status of other initiatives to improve corporate governance

The Company aims to build relationships of trust with shareholders and investors through constructive dialogue in order to enhance corporate value over the medium to long term. To achieve this, we believe it is important to understand the perspectives and thoughts of market participants. We analyze management and stock price indicators, including the Tokyo Stock Exchange average and comparisons with industry peers, and share and discuss opinions obtained from interviews and surveys of shareholders with the Board of Directors and each division manager. This information is then used to enhance information disclosure and improve management for enhancing corporate value. In addition, in accordance with the disclosure policy*, we are enhancing management transparency by disclosing not only information required by laws and regulations, but also information that is timely and appropriate in light of expectations and concerns regarding the Company.

*The disclosure policy is available on the Company's website.

https://www.sangetsu.co.jp/english/ir/management/policy.html

a. Enhancement of information disclosure

We strive to promptly disclose information in both Japanese and English based on the disclosure policy of providing fair, timely, and appropriate disclosure to shareholders and investors in Japan and overseas. In addition to expanding the disclosure of financial results materials, we are also conscious of providing easy-to-understand explanations through various media, such as expanding information on value creation stories based on our Corporate Philosophy through integrated reports, etc. and corporate reports, etc. based on objective perspectives from external organizations.

b. Structure for dialogue and specific initiatives

We have designated the Public Relations and IR Section of the Corporate Strategy Department, which reports directly to the President & CEO, as the specialized department for IR activities. In cooperation with other departments such as the Corporate Planning Section of the Corporate Strategy Department, the Finance and Accounting Department, and the ESG Promotion Section of the General Affairs Department, we strive to provide more effective information disclosure. In addition, we strive to ensure that the Company's corporate value is appropriately evaluated by responding to requests for meetings and having the Representative Director, President & CEO and relevant division managers attend such meetings.

<Topics for dialog, matters to be reported and discussed within the company>

・ Shareholder composition, stock price trends (including fluctuations of stock prices and trading volume)
・ Progress of each target in the Medium-term Business Plan [BX 2025] and approach to shareholder return
・ Management with an awareness of stock price and capital costs, and approach to each management strategy
・ Expansion of disclosures on business model transformation and competitive advantages at the "Space Creation Company"
・ Progress and approach to non-financial targets
・ Evaluation criteria and approach to remuneration for officers

<FY2024 Dialogue status>

Description	Respondents	Participants	Number of times
General Meeting of Shareholders	Representative Director, President & CEO, Directors, Outside Directors (Audit and Supervisory Committee Members), Executive Officers	Shareholders	1 time
Company information session	Representative Director, President & CEO, Directors, Outside Directors (Audit and Supervisory Committee Members), Executive Officers	Shareholders (mainly Individuals)	1 time
Financial results and management strategy briefing	Representative Director, President & CEO, Executive Officers, etc.	Analysts and institutional investors	2 times
Small meeting	Representative Director, President and CEO	Analysts and institutional investors	1 time
IR and SR interview	Representative Director, President & CEO, Executive Officers, etc.	Analysts, institutional investors and shareholders	Approximately 100 times

(2) Share ownership

(i) Policy and concept of the classification of investment shares

The Company does not hold shares for pure investment purposes.

(ii) Investment shares whose purpose of holding is other than for pure investment

a. Method for inspecting the holding policy and the rationality of ownership, and the details of inspections by the Board of Directors and the like concerning the propriety of the ownership of individual issues

Based on our business strategy, we make comprehensive judgments from the perspective of companies with which we should newly strengthen our relationships and companies with which we should continue to strengthen our relationships as business partners, and then decide on the strategically held shares that will be held over the medium to long term. The Company reviews the costs and returns associated with holding shares every year, and if it determines that holding the shares is no longer meaningful in the medium to long term, it has a policy to sell the shares, and reports this to the Board of Directors.

In addition, when a company, whose shares we hold as shares held for purposes other than pure investment, offers to sell shares of the Company, the Company will not take any action to prevent the sale.

b. Number of issues and balance sheet amount

	Number of issues (Issue name)	Total amount of balance sheet amount (millions of yen)
Unlisted shares	8	76
Shares other than unlisted shares	15	7,672

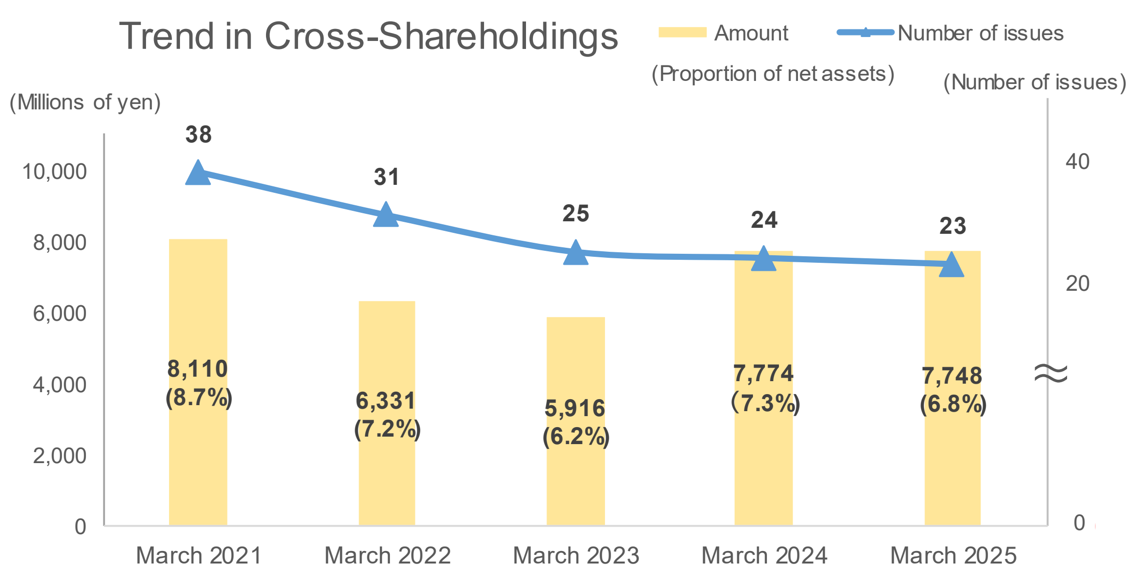
(Issues whose number of shares increased in the fiscal year under review)

	Number of issues (Issue name)	Total acquisition costs associated with increase in number of shares (millions of yen)	Reason for increase in number of shares
Unlisted shares	–	–	–
Shares other than unlisted shares	1	0	Shares acquired through the shareholding association

Note: The changes due to a stock split are not reflected in the issues whose number of shares increased.

(Issues whose number of shares decreased in the fiscal year under review)

	Number of issues (Issue name)	Total sale value associated with decrease in number of shares (millions of yen)
Unlisted shares	–	–
Shares other than unlisted shares	2	553



c. Information about the numbers of specified investment shares by issue, balance sheet amounts, etc.

Specified investment shares

Issue	Fiscal year ended March 31, 2025 Number of shares (shares) Balance sheet amount (millions of yen)	Fiscal year ended March 31, 2024 Number of shares (shares) Balance sheet amount (millions of yen)	Purpose of holding, overview of business alliance, etc., quantitative effect of holding, and reason for increase in number of shares	Holding of the Company's shares
Resorttrust, Inc.	1,731,040	865,520	(Purpose of holding) Sales promotion of the Company's merchandise (Quantitative effect of holding) (Note 2) (Reason for increase in shares) Increase resulting from stock split	Yes
	2,512	2,297		
Sumitomo Realty & Development Co., Ltd.	408,000	408,000	(Purpose of holding) Sales promotion of the Company's merchandise (Quantitative effect of holding) (Note 2)	Yes
	2,281	2,365		
Mitsubishi UFJ Financial Group, Inc.	957,150	957,150	As a result of examining the rationality of holding the shares, we plan to sell a portion of them.	Yes
	1,924	1,490		
Daito Trust Construction Co., Ltd.	20,813	20,757	(Purpose of holding) Sales promotion of the Company's merchandise (Quantitative effect of holding) (Note 2) (Reason for increase in shares) Acquisition through the shareholding association	No
	318	362		
MEIKO CONSTRUCTION CO., LTD.	225,643	225,643	(Purpose of holding) Sales promotion of the Company's merchandise (Quantitative effect of holding) (Note 2)	Yes
	292	282		
The Bank of Nagoya, Ltd.	9,458	23,458	As a result of examining the rationality of holding the shares, we plan to sell a portion of them.	Yes
	74	156		
Starts Corporation Inc.	15,000	15,000	(Purpose of holding) Sales promotion of the Company's merchandise (Quantitative effect of holding) (Note 2)	No
	58	51		
DYNIC CORPORATION	66,000	66,000	(Purpose of holding) Strengthen the relationship with the supplier (Quantitative effect of holding) (Note 2)	Yes
	49	50		
KYOWA LEATHER CLOTH CO., LTD.	60,000	60,000	(Purpose of holding) Strengthen the relationship with the supplier (Quantitative effect of holding) (Note 2)	Yes
	42	48		
Misonoza Theatrical Corporation	18,000	18,000	As a result of examining the rationality of holding the shares, we plan to sell them.	No
	30	33		
The Ogaki Kyoritsu Bank, Ltd.	11,300	11,300	As a result of examining the rationality of holding the shares, we plan to sell them.	Yes
	26	24		
TOKEN CORPORATION	2,000	2,000	(Purpose of holding) Sales promotion of the Company's merchandise (Quantitative effect of holding) (Note 2)	Yes
	25	20		
Dai-ichi Life Holdings, Inc.	22,400	5,600	As a result of examining the rationality of holding the shares, we plan to sell a portion of them. (Reason for increase in shares) Increase resulting from stock split	Yes
	25	21		
AVANTIA CO., LTD.	7,200	7,200	(Purpose of holding) Sales promotion of the Company's merchandise (Quantitative effect of holding) (Note 2)	No
	5	6		
Lonseal Corporation	1,303	1,303	(Purpose of holding) Strengthen the relationship with the supplier (Quantitative effect of holding) (Note 2)	Yes
	2	2		
Wavelock Holdings Co., Ltd.	–	692,600	–	No
	–	485		

Notes: 1. A dash "–" indicates that the issue is not held.

2. As it is difficult to provide a description of the quantitative effect of the holdings, the method used to verify the rationality of the holdings has been described. The Company reviews the significance of strategically held shares each fiscal year and confirms that all shares which we continue to hold are held for purposes that are in line with our holding policy.

(iii) Investment shares whose purpose of holding is for pure investment

No items to report

III. Financial Information

1. Basis of preparation of the consolidated financial statements and the non-consolidated financial statements

(1) The consolidated financial statements of the Company are prepared in accordance with the Regulation on Terminology, Forms and Preparation Methods of Consolidated Financial Statements (Ministry of Finance Order No. 28 of 1976; hereinafter the "Regulations on Consolidated Financial Statements").

(2) The non-consolidated financial statements of the Company are prepared in accordance with the Regulation on Terminology, Forms, and Preparation Methods of Financial Statements (Ministry of Finance Order No. 59 of 1963; hereinafter the "Regulations on Non-consolidated Financial Statements").
As the Company falls under the category of a company filing financial statements prepared in accordance with special provisions, the non-consolidated financial statements of the Company are prepared in accordance with Article 127 of the Regulations for Non-consolidated Financial Statements.

2. Auditing and attestation

The consolidated and the non-consolidated financial statements for the fiscal year ended March 31, 2025 (from April 1, 2024 to March 31, 2025) were audited by Deloitte Touche Tohmatsu LLC, pursuant to the provisions of Article 193-2, paragraph (1) of the Financial Instruments and Exchange Act.

3. Particular efforts to secure the appropriateness of the consolidated financial statements

The Company makes particular efforts to secure the appropriateness of its consolidated financial statements. Specifically, the Company has joined the Financial Accounting Standards Foundation (FASF), participates in seminars hosted by the Foundation, as well as training sessions hosted by auditing firms, etc., in order to appropriately grasp the content of accounting standards, etc., and to develop a system that enables it to respond appropriately to changes in accounting standards, etc.

1. Consolidated Financial Statements and Other Information

(1) Consolidated Financial Statements

(i) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2024	As of March 31, 2025
Assets		
Current assets		
Cash and deposits	25,096	*2 33,727
Notes receivable - trade	*5 8,526	4,781
Accounts receivable - trade	26,186	26,430
Contract assets	235	3,833
Electronically recorded monetary claims - operating	*5 24,300	23,834
Securities	300	300
Merchandise and finished goods	18,380	19,300
Work in process	278	185
Raw materials and supplies	3,129	2,948
Other	1,446	2,118
Allowance for doubtful accounts	(416)	(449)
Total current assets	107,463	117,011
Non-current assets		
Property, plant and equipment		
Buildings and structures	32,159	35,264
Accumulated depreciation	(20,897)	(21,953)
Buildings and structures, net	11,262	13,310
Machinery, equipment and vehicles	18,899	19,591
Accumulated depreciation	(13,859)	(14,497)
Machinery, equipment and vehicles, net	5,039	5,093
Tools, furniture and fixtures	5,652	6,230
Accumulated depreciation	(4,722)	(5,224)
Tools, furniture and fixtures, net	929	1,005
Land	16,468	16,361
Leased assets	2,600	3,407
Accumulated depreciation	(922)	(1,879)
Leased assets, net	1,678	1,528
Construction in progress	4,530	4,366
Total property, plant and equipment	39,909	41,665
Intangible assets		
Software	1,247	1,644
Goodwill	1,173	1,836
Other	807	810
Total intangible assets	3,228	4,290
Investments and other assets		
Investment securities	*1 8,128	*1 8,203
Investment property	4,888	4,945
Guarantee deposits	1,894	2,088
Retirement benefit asset	548	1,218
Deferred tax assets	3,978	3,196
Other	729	1,252
Allowance for doubtful accounts	(17)	(12)
Total investments and other assets	20,149	20,892
Total non-current assets	63,287	66,848
Total assets	170,750	183,859

(Millions of yen)

		As of March 31, 2024	As of March 31, 2025
Liabilities			
Current liabilities			
Notes and accounts payable - trade	*5	16,131	18,157
Contract liabilities		1,208	1,515
Electronically recorded obligations - operating	*5	15,423	13,940
Short-term borrowings		5,711	9,098
Lease liabilities		522	509
Income taxes payable		2,681	3,045
Provision for bonuses		3,602	3,972
Provision for bonuses for directors (and other officers)		134	95
Provision for product warranties		389	174
Other		7,468	7,767
Total current liabilities		53,273	58,276
Non-current liabilities			
Long-term borrowings		—	2,000
Lease liabilities		1,251	1,177
Deferred tax liabilities		256	254
Retirement benefit liability		6,495	5,547
Asset retirement obligations		1,784	1,697
Other		979	1,123
Total non-current liabilities		10,767	11,800
Total liabilities		64,040	70,077
Net assets			
Shareholders' equity			
Share capital		13,616	13,616
Capital surplus		17,175	17,218
Retained earnings		70,799	74,555
Treasury shares		(791)	(698)
Total shareholders' equity		100,799	104,692
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities		3,305	3,628
Deferred gains or losses on hedges		(20)	—
Foreign currency translation adjustment		1,241	2,084
Remeasurements of defined benefit plans		1,312	2,626
Total accumulated other comprehensive income		5,839	8,339
Share acquisition rights		55	4
Non-controlling interests		14	745
Total net assets		106,709	113,781
Total liabilities and net assets		170,750	183,859

(ii) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Consolidated Statement of Income

(Millions of yen)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Net sales	*1 189,859	*1 200,378
Cost of sales	*2 130,899	*2 138,005
Gross profit	58,959	62,373
Selling, general and administrative expenses		
Sample books expenses	3,822	3,402
Provision of allowance for doubtful accounts	(29)	24
Salaries and allowances	14,479	16,567
Provision for bonuses	2,945	3,103
Provision for bonuses for directors (and other officers)	134	95
Retirement benefit expenses	1,017	792
Provision for product warranties	(124)	(79)
Other	*2 17,610	*2 20,293
Selling, general and administrative expenses	39,856	44,198
Operating profit	19,103	18,174
Non-operating income		
Interest income	104	90
Dividend income	209	193
Rental income from real estate	429	429
Other	336	229
Total non-operating income	1,078	943
Non-operating expenses		
Interest expenses	269	244
Rental expenses on real estate	119	109
Loss on valuation of interest rate swaps	—	64
Foreign exchange losses	65	75
Other	32	17
Total non-operating expenses	486	511
Ordinary profit	19,695	18,606
Extraordinary income		
Gain on sale of non-current assets	*3 11	*3 3
Gain on sale of investment securities	227	41
Subsidy income	*7 392	*7 223
Gain on liquidation of subsidiaries and associates	*8 59	—
Total extraordinary income	691	267
Extraordinary losses		
Loss on sale of non-current assets	—	*4 3
Loss on retirement of non-current assets	*5 30	*5 40
Loss on sale of investment securities	59	41
Loss on valuation of investment securities	11	—
Impairment losses	*6 166	*6 94
Other	2	—
Total extraordinary losses	270	179
Profit before income taxes	20,116	18,695
Income taxes - current	6,149	5,852
Income taxes - deferred	(324)	257
Total income taxes	5,824	6,110
Profit	14,291	12,585
Profit attributable to non-controlling interests	—	17
Profit attributable to owners of parent	14,291	12,567

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Profit	14,291	12,585
Other comprehensive income		
Valuation difference on available-for-sale securities	2,036	322
Deferred gains or losses on hedges	19	20
Foreign currency translation adjustment	83	824
Remeasurements of defined benefit plans, net of tax	2,015	1,313
Total other comprehensive income	* 4,153	* 2,480
Comprehensive income	18,445	15,065
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	18,445	15,059
Comprehensive income attributable to non-controlling interests	—	6

(iii) Consolidated Statements of Changes in Equity

Fiscal year ended March 31, 2024

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	13,616	17,150	64,138	(849)	94,056
Changes during period					
Dividends of surplus			(7,630)		(7,630)
Profit attributable to owners of parent			14,291		14,291
Purchase of treasury shares				(1)	(1)
Disposal of treasury shares		23		46	70
Exercise of share acquisition rights		1		12	13
Net changes in items other than shareholders' equity					
Total changes during period	—	24	6,660	58	6,743
Balance at end of period	13,616	17,175	70,799	(791)	100,799

	Accumulated other comprehensive income					Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of period	1,269	(39)	1,157	(702)	1,685	69	13	95,825
Changes during period								
Dividends of surplus								(7,630)
Profit attributable to owners of parent								14,291
Purchase of treasury shares								(1)
Disposal of treasury shares								70
Exercise of share acquisition rights								13
Net changes in items other than shareholders' equity	2,036	19	83	2,015	4,153	(13)	1	4,141
Total changes during period	2,036	19	83	2,015	4,153	(13)	1	10,884
Balance at end of period	3,305	(20)	1,241	1,312	5,839	55	14	106,709

Fiscal year ended March 31, 2024

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	13,616	17,175	70,799	(791)	100,799
Changes during period					
Dividends of surplus			(8,811)		(8,811)
Profit attributable to owners of parent			12,567		12,567
Purchase of treasury shares				(1)	(1)
Disposal of treasury shares		39		47	86
Exercise of share acquisition rights		4		46	51
Net changes in items other than shareholders' equity					
Total changes during period	―	43	3,756	92	3,892
Balance at end of period	13,616	17,218	74,555	(698)	104,692

	Accumulated other comprehensive income					Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of period	3,305	(20)	1,241	1,312	5,839	55	14	106,709
Changes during period								
Dividends of surplus								(8,811)
Profit attributable to owners of parent								12,567
Purchase of treasury shares								(1)
Disposal of treasury shares								86
Exercise of share acquisition rights								51
Net changes in items other than shareholders' equity	322	20	843	1,313	2,499	(51)	730	3,179
Total changes during period	322	20	843	1,313	2,499	(51)	730	7,071
Balance at end of period	3,628	―	2,084	2,626	8,339	4	745	113,781

(iv) Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Cash flows from operating activities		
Profit before income taxes	20,116	18,695
Depreciation	3,236	3,180
Impairment losses	166	94
Amortization of goodwill	169	234
Increase (decrease) in allowance for doubtful accounts	(195)	(5)
Increase (decrease) in provision for bonuses	401	303
Increase (decrease) in provision for bonuses for directors (and other officers)	(133)	(39)
Increase (decrease) in retirement benefit liability	216	(105)
Increase (decrease) in provision for product warranties	(169)	(232)
Interest and dividend income	(313)	(284)
Real estate rent	(429)	(429)
Interest expenses	269	244
Loss (gain) on sale of investment securities	(167)	0
Loss (gain) on liquidation of subsidiaries and associates	(59)	—
Subsidy income	(392)	(223)
Decrease (increase) in trade receivables	(2,810)	3,751
Decrease (increase) in inventories	(591)	(265)
Increase (decrease) in trade payables	1,626	(1,154)
Decrease (increase) in consumption taxes refund receivable	(19)	(300)
Increase (decrease) in accrued consumption taxes	(1,163)	176
Other, net	1,723	889
Subtotal	21,479	24,528
Interest and dividends received	313	286
Subsidies received	392	223
Settlement received	7	—
Interest paid	(285)	(237)
Income taxes paid	(9,089)	(5,541)
Net cash provided by (used in) operating activities	12,818	19,260
Cash flows from investing activities		
Payments into time deposits	(314)	(147)
Proceeds from withdrawal of time deposits	—	457
Purchase of securities	(300)	(300)
Proceeds from redemption of securities	300	300
Purchase of property, plant and equipment	(4,386)	(4,741)
Proceeds from sale of property, plant and equipment	12	13
Purchase of intangible assets	(629)	(720)
Purchase of investment securities	(13)	(90)
Proceeds from sale of investment securities	2,812	611
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	*2 (1,817)
Purchase of insurance funds	(0)	(207)
Proceeds from cancellation of insurance funds	343	200
Proceeds from rental of investment property	429	429
Payments of guarantee deposits	(48)	(185)
Proceeds from refund of guarantee deposits	52	49
Purchase of long-term prepaid expenses	(45)	(671)
Other, net	(58)	(51)
Net cash provided by (used in) investing activities	(1,846)	(6,873)

(Millions of yen)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Cash flows from financing activities		
Proceeds from short-term borrowings	7,669	26,596
Repayments of short-term borrowings	(2,884)	(23,208)
Proceeds from long-term borrowings	—	2,000
Repayments of long-term borrowings	(7,854)	—
Repayments of finance lease liabilities	(554)	(564)
Purchase of treasury shares	(1)	(1)
Dividends paid	(7,624)	(8,802)
Other, net	0	0
Net cash provided by (used in) financing activities	(11,249)	(3,980)
Effect of exchange rate change on cash and cash equivalents	230	321
Net increase (decrease) in cash and cash equivalents	(47)	8,727
Cash and cash equivalents at beginning of period	24,765	24,717
Cash and cash equivalents at end of period	*1 24,717	*1 33,445

Notes to consolidated financial statements

Significant matters forming the basis for preparation of consolidated financial statements

1. Scope of consolidation

   Number of consolidated subsidiaries: 29

   Names of major consolidated subsidiaries

   Sungreen Co., Ltd.

   Fairtone Co., Ltd.

   Sangetsu Vosne Corporation

   Sangetsu Okinawa Corporation

   CREANATE Inc.

   Kurosukikaku Corporation

   KOROSEAL INTERIOR PRODUCTS HOLDINGS, INC.

   Goodrich Global Holdings Pte. Ltd.

   GOODRICH GLOBAL LIMITED

   D'Perception Pte Ltd

   In the fiscal year ended March 31, 2025, the Company acquired 70% shares of D'Perception Pte Ltd during the current consolidated fiscal year and is therefore included in the scope of consolidation.

2. Application of the equity method

   (1) Number of associates accounted for using equity method: –

   (2) Names of associates not accounted for by the equity method

   Hakata Soko Co., Ltd

   (Reason why not accounted for by the equity method)

   Associates are excluded from the scope of application of the equity method, because such exclusion has only an immaterial effect on the consolidated financial statements in terms of each company's profit or loss (amount corresponding to the Company's ownership interest) and retained earnings (amount corresponding to the Company's ownership interest), and they have no significance as a whole.

3. Fiscal year, etc. of consolidated subsidiaries

   Of the Company's consolidated subsidiaries, KOROSEAL INTERIOR PRODUCTS HOLDINGS, INC., Goodrich Global Holdings Pte. Ltd., GOODRICH GLOBAL LIMITED, D'Perception Pte Ltd and 18 other overseas subsidiaries have a fiscal year ending December 31. The financial statements as of that date are used in the preparation of the consolidated financial statements, and any significant transactions occurring between the fiscal year-end date and the consolidated fiscal year-end date are adjusted as necessary for consolidation. The fiscal year-end of the other 7 domestic consolidated subsidiaries is the same as the consolidated fiscal year-end date.

4. Accounting policies

   (1) Standards and methods for valuation of important assets

   (i) Securities

   Available-for-sale securities

   Securities other than shares, etc. without market value

   Stated at fair value (valuation differences are directly recorded in shareholders' equity, and the cost of securities sold is computed based on the moving average method)

   Shares, etc. without market prices

   Stated at cost using the moving average method.

   (ii) Derivatives

   Mainly stated at fair value

   (iii) Inventory

   Mainly stated at cost using the moving average method (carrying amounts on the balance sheet are subject to the book value reduction method based on decreased profitability)

(2) Depreciation or amortization method for important depreciable or amortizable assets

(i) Property, plant and equipment (excluding leased assets)

The declining balance method is applied. However, for consolidated subsidiaries in Japan, the straight-line method is used for buildings (excluding facilities) acquired on or after April 1, 1998, and for facilities attached to buildings and for structures acquired on or after April 1, 2016. Also, the straight-line method is used by consolidated subsidiaries outside Japan.

Major useful lives are as follows.

Buildings and structures	2–50 years
Machinery, equipment and vehicles	2–25 years

(ii) Intangible assets (excluding leased assets)

The straight-line method is applied.

Software for internal use is amortized over its estimated useful life (5 years).

(iii) Leased assets

Leased assets related to finance lease transactions that transfer ownership

The same depreciation method applied to non-current assets owned by the Company is applied.

Leased assets related to finance lease transactions that do not transfer ownership

Depreciation is calculated using the straight-line method, with the lease period being the useful life and the residual value being zero.

For foreign consolidated subsidiaries that apply IFRS, IFRS 16 "Leases" is applied and, in principle, all leases of lessees are recorded as assets and liabilities on the balance sheet, and capitalized right-of-use assets are depreciated using the straight-line method.

For foreign consolidated subsidiaries that apply Generally Accepted Accounting Principles (U.S. GAAP), U.S. GAAP ASC Topic 842 "Leases" is applied and, in principle, all leases of lessees are recorded as assets and liabilities on the balance sheet, and are depreciated over the lease term using the depreciation method under U.S. GAAP.

(3) Standards for recording significant provisions and allowances

(i) Allowance for doubtful accounts

To prepare for credit losses on receivables, loans, etc., an estimated uncollectable amount is provided at the amount estimated by either using the historical rate of credit loss for general receivables, or based on individual consideration of collectability for specific receivables such as highly doubtful receivables.

(ii) Provision for product warranties

For certain products, goods, etc. found to be defective, etc. after sale, the Company records the estimated amount that may be claimed against the Company for claims, etc. arising from such defects.

(iii) Provision for bonuses

To provide for the payment of bonuses to employees, of the estimated amount of bonuses to be paid, the amount estimated to cover the bonus payment for services rendered by employees during the fiscal year ended March 31, 2024 is provided.

(iv) Provision for bonuses for directors (and other officers)

To provide for the payment of bonuses to directors, an amount accrued for the fiscal year ended March 31, 2024 is recorded based on the calculation method determined by the Company.

(4) Accounting methods for retirement benefits

(i) Method of attributing expected retirement benefits to periods

In the calculation of retirement benefit obligations, expected retirement benefits are attributed to the period up to the end of the fiscal year ended March 31, 2025 on a benefit formula basis.

(ii) Method of amortizing actuarial gains and losses and past service cost

Past service cost is amortized using the straight-line method over a certain number of years (mainly 10 years) within the average remaining service years of employees when incurred.

Actuarial gains and losses are amortized using the straight-line method over a certain number of years (mainly 10 years) within the average remaining service years of employees when incurred in each fiscal year, from the fiscal year following the accrual of each gain or loss.

(iii) Adoption of simplified method by smaller firms, etc.

Certain consolidated subsidiaries apply a simplified method for calculating retirement benefit liability and retirement benefit expenses, using the amount payable at the end of the fiscal year as the retirement benefit obligation.

(5) Basis for recognizing significant revenue and expenses

The principal performance obligations of the Company and its consolidated subsidiaries related to revenue from contracts with customers and the usual times at which such performance obligations are satisfied (the usual times at which revenue is recognized) are as follows.

(i) Sale of merchandise and finished goods

The Company and its consolidated subsidiaries are mainly engaged in the manufacture and sale of wallcoverings, flooring materials, fabrics, and other interior materials, as well as exterior products. At the point in time that control of these merchandise and finished goods is transferred to the customer, revenue is recognized at the amount expected to be received in exchange for the goods and products. However, for domestic sales of merchandise and finished goods, if a normal period of time will elapse between the shipment of the merchandise and finished goods and the transfer of control to the customer, the Company applies the alternative treatment prescribed in paragraph 98 of the Implementation Guidance on Accounting Standard for Revenue Recognition, and recognizes revenue at the time of shipment. With respect to the sale of certain interior and exterior merchandise, the Company and its consolidated subsidiaries do not carry inventory and have determined that they are acting as agents in transactions because their performance obligation is to arrange for the merchandise to be provided by other parties. For transactions deemed to qualify as agent transactions, the Company recognizes as revenue the net amount received in exchange for merchandise provided by another party, less the amount paid to such other party. The transaction price is calculated based on the price agreed with the customer minus sales commission, etc. Consideration for transactions is received within approximately 6 months from the satisfaction of the performance obligation and does not include a significant financial component.

(ii) Installation contracts

The Company and some of its consolidated subsidiaries may enter into installation contracts with customers for the installation of interior materials and similar work. For such contracts, the Company recognizes revenue based on the degree of progress made in satisfying the performance obligation over a specified period of time. Progress is measured by comparing the cost of installation work incurred at the end of the period with the estimated cost of installation work to complete the project. However, for certain transactions with very short installation periods, such revenue is recognized when the performance obligation is fully satisfied. The promised consideration is paid within approximately 6 months from the satisfaction of the performance obligation and does not include a significant financial component.

(6) Accounting policy for translation of significant foreign currency assets or liabilities into Japanese yen

Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot exchange rate prevailing as of the consolidated fiscal year-end date, and translation differences are accounted for as profit or loss. Assets and liabilities of foreign subsidiaries are translated into Japanese yen at the spot exchange rate prevailing as of the fiscal year-end date, and their revenue and expenses are translated into Japanese yen at the average exchange rate during the period. Translation differences for net assets are included in foreign currency translation adjustment.

(7) Method and period for amortization of goodwill

Goodwill and an amount equivalent to goodwill is amortized over a reasonably estimated period (within 10 years) during which the effect will be realized, and then equally amortized over the relevant period. However, small amount items are amortized in full at the time they are incurred.

(8) Scope of cash and cash equivalents in consolidated statement of cash flows

Cash and cash equivalents in the consolidated statement of cash flows are comprised of cash in hand, demand deposits, and short-term investments with maturities or redemption dates of three months or less from the acquisition date that are highly liquid, readily convertible into cash, and are exposed to only an insignificant risk of fluctuations in value.

Changes in Accounting Policies

(Application of "Accounting Standards for Corporate Tax, Resident Tax, and Business Tax, etc.")

The Company has applied the "Accounting Standards for Corporate Tax, Resident Tax, and Business Tax, etc." (Accounting Standards Board of Japan (ASBJ) Statement No. 27 revised on October 28, 2022; hereinafter the "Revised Accounting Standard of 2022") and other relevant ASBJ regulations from the beginning of the current consolidated fiscal year. Revisions to categories for recording current income taxes (taxation on other comprehensive income) conform to the transitional treatment in the proviso of Paragraph 20-3 of the Revised Accounting Standard of 2022 and to the transitional treatment in the proviso of Paragraph 65-2(2) of the "Guidance on Accounting Standard for Tax Effect Accounting" (ASBJ Guidance No. 28 revised on October 28, 2022, ASBJ; hereinafter the "Revised Application Guidance of 2022"). There is no impact on the consolidated financial statements due to this change in accounting policy. Concerning the revision related to revised treatment on consolidated financial statement when deferring gains or losses on sale realized in conjunction with sale of shares of subsidiaries, etc. conducted among consolidated companies for tax purposes, the Revised Application Guidance of 2022 has been adopted from the beginning of the current consolidated fiscal year. The change in the accounting policy has been applied retrospectively. Therefore, the new accounting policy was reflected in the consolidated financial statements for the previous fiscal year. There is no impact on the consolidated financial statements for the previous consolidated fiscal year due to this change in accounting policy.

(Application of "Practical Solution on the Accounting for and Disclosure of Current Taxes Related to the Global Minimum Tax Rules, etc.")

The Company has applied the "Practical Solution on the Accounting for and Disclosure of Current Taxes Related to the Global Minimum Tax Rules, etc." (Practical Solution No. 46, March 22, 2024) from the beginning of the current consolidated fiscal year. There is no impact on the consolidated financial statements due to this change in accounting policy.

New accounting standards not yet applied

- On September 13, 2024, the ASBJ issued "Accounting Standard for Leases" (ASBJ Statement No. 34)
- On September 13, 2024, the ASBJ issued "Implementation Guidance on Accounting Standard for Leases" (ASBJ Guidance No. 33)

(1) Overview

As part of the efforts to align Japanese accounting standards with international standards, the Accounting Standards Board of Japan (ASBJ) conducted a review, in light of the international accounting standards, to develop accounting standards for leases that recognize assets and liabilities with respect to all leases of the lessee. While the basic policy is to adopt the single lessee accounting model of IFRS 16 as the base, the ASBJ announced the accounting standard for leases, etc. that are intended to be simple and highly convenient and that basically do not require adjustments even when the provisions of IFRS 16 are applied to non-consolidated financial statements, by adopting only the key provisions rather than all provisions of IFRS 16.

In terms of the accounting treatment for allocating expenses related to leases by the lessee, the single lessee accounting model is applied as done under IFRS 16 where depreciation associated with a right-of-use asset and interest equivalent amount associated with a lease liability are recorded for all leases regardless of whether they are finance or operating leases.

(2) Scheduled effective date

This will be applied from the beginning of the fiscal year ending March 31, 2028.

(3) Effect of application of relevant accounting standards

The effect of application of the "Accounting Standard for Leases" and other related standards on consolidated financial statements is currently under evaluation.

Changes in presentation

<u>Consolidated statements of cash flows</u>

"Increase (decrease) in accrued consumption tax, etc." previously included in "Other, net," under "Cash flows from operating activities" and "Payment by reserving insurance reserves" previously included in "Other, net," under "Cash flows from investing activities" has been presented separately in the fiscal year ended March 31, 2025, because its significance increased in terms of monetary amount. To reflect these changes in presentation, the consolidated financial statements for the fiscal year ended March 31, 2024 have been reclassified.
As a result, "Other, net," under "Cash flows from operating activities" of 1,703 million yen shown in "Cash flows from operating activities" in the consolidated statement of cash flows for the fiscal year ended March 31, 2024 has been reclassified to "Increase (decrease) in consumption tax receivable" of (19) million yen and "Other, net," of 1,723 million yen. (59) million yen presented in "Other, net," under "Cash flows from investing activities" has been reclassified to "Expenditure from reserve for insurance" of (0) million yen and "Other, net," of (58) million yen.

Consolidated balance sheet

*1 Items pertaining to non-consolidated subsidiaries and affiliates are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Investment securities (shares)	37	37

*2 Collateralized assets

Collateralized assets are as follows.

(Millions of yen)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Cash and deposits	–	72

3 Contingent liabilities

(repair work)

The Company conducts repair work for defects that have occurred in some of its merchandise. Although some repair work is performed on behalf of manufacturers, many uncertainties exist in regard to the proportion of repair work carried out, making it difficult to reasonably estimate the total amount to be paid by the Company for repair work.

4 Notes receivable - trade endorsed, electronically recorded monetary claims - operating discount, and electronically recorded monetary claims - operating endorsed

(Millions of yen)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Notes receivable - trade endorsed	16	2
Electronically recorded monetary claims - operating discount	7	8
Electronically recorded monetary claims - operating endorsed	22	12

*5 Notes, etc. maturing at the end of the consolidated fiscal year

Regarding accounting processing of notes maturing at the end of the consolidated fiscal year, settlement is made either on the clearance date or settlement date. As the final day of the fiscal year ended March 31, 2024 was a bank holiday, the following notes maturing on the final day of the next consolidated fiscal year were included in the balance at the end of the consolidated fiscal year.

(Millions of yen)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Notes receivable - trade	593	–
Electronically recorded monetary claims - operating	1,860	–
Notes payable - trade	8	–
Electronically recorded obligations - operating	435	–

Consolidated statement of income

*1 Revenue from contracts with customers

Revenues from contracts with customers are not presented separately from other revenue. The amount of revenue from contracts with customers is presented in "Notes to consolidated financial statements (revenue recognition), 1. Breakdown of revenue from contracts with customers."

*2 Total research and development expenses included in general and administrative expenses and current manufacturing costs

(Millions of yen)

Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
601	677

*3 Breakdown of gain on sale of non-current assets

(Millions of yen)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Buildings and structures	9	—
Machinery, equipment and vehicles	2	3
Tools, furniture and fixtures	0	0
Total	11	3

*4 Breakdown of loss on sale of non-current assets

(Millions of yen)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Machinery, equipment and vehicles	–	3
Total	–	3

*5 Breakdown of loss on retirement of non-current assets

(Millions of yen)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Buildings and structures	12	7
Machinery, equipment and vehicles	7	6
Tools, furniture and fixtures	8	9
Software	–	6
Other	1	11
Total	30	40

*6 Impairment losses

Fiscal year ended March 31, 2024

The information is omitted as it is immaterial.

Fiscal year ended March 31, 2025

The information is omitted as it is immaterial.

*7 Subsidy income

Fiscal year ended March 31, 2024

These are grants and subsidies provided by governments or local authorities in relation to the impact of COVID-19.

Fiscal year ended March 31, 2025

This is a subsidy related to the FY2023 'Advanced Demonstration Project for Logistics Efficiency Improvement (Advanced Demonstration Project for Logistics Efficiency Improvement for Shippers)'.

*8 Gain on liquidation of subsidiaries and associates

Fiscal year ended March 31, 2024

This follows the completion of the liquidation of our consolidated subsidiary, Sangetsu Goodrich China Co., Ltd.

Fiscal year ended March 31, 2025

No items to report

Consolidated statement of comprehensive income

* Reclassification adjustments and income taxes and tax effects relating to other comprehensive income

(Millions of yen)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Valuation difference on available-for-sale securities:		
Amount accrued in the current fiscal year	2,917	(538)
Reclassification adjustment	(156)	0
Before income taxes and tax effects adjustment	2,761	538
Income taxes and tax effects	(725)	(215)
Valuation difference on available-for-sale securities	2,036	322
Deferred gains or losses on hedges:		
Amount accrued in the current fiscal year	27	–
Reclassification adjustment	–	29
Before income taxes and tax effects adjustment	27	29
Income taxes and tax effects	(8)	(8)
Deferred gains or losses on hedges	19	20
Foreign currency translation adjustment:		
Amount accrued in the current fiscal year	142	824
Reclassification adjustment	(59)	–
Before income taxes and tax effects adjustment	83	824
Income taxes and tax effects	–	–
Foreign currency translation adjustment	83	824
Remeasurements of defined benefit plans, net of tax:		
Amount accrued in the current fiscal year	2,505	1,500
Reclassification adjustment	350	101
Before income taxes and tax effects adjustment	2,855	1,601
Income taxes and tax effects	(840)	(287)
Remeasurements of defined benefit plans, net of tax	2,015	1,313
Total other comprehensive income	4,153	2,480

Consolidated statement of changes in equity

Fiscal year ended March 31, 2024

1. Class and total number of issued shares, and class and number of treasury shares

(Shares)

	Number of shares at beginning of the fiscal year	Increase in number of shares	Decrease in number of shares	Number of shares at end of the fiscal year
Issued shares				
Common shares	59,200,000	–	–	59,200,000
Total	59,200,000	–	–	59,200,000
Treasury shares				
Common shares (See Notes 1, 2)	519,348	406	36,350	483,404
Total	519,348	406	36,350	483,404

Notes: 1. The increase of 406 shares in the number of treasury shares of common shares is due to the purchase of odd-lot shares.
2. The decrease of 36,350 shares in the number of treasury shares of common shares is due to the exercise of 7,800 share acquisition rights and the disposal of 28,550 shares as restricted share remuneration.

2. Share acquisition rights and treasury share acquisition rights

Title	Breakdown of share acquisition rights	Class of shares to be issued upon exercise of share acquisition rights	Number of shares to be issued upon exercise of share acquisition rights				Balance at the end of the fiscal year (millions of yen)
			Beginning of the fiscal year	Increase in the fiscal year	Decrease in the fiscal year	End of the fiscal year	
Reporting company (parent company)	Share acquisition rights as stock options	–	–	–	–	–	55
Total		–	–	–	–	–	55

3. Dividends

(1) Dividends paid

Resolution	Class of shares	Total amount of dividends (millions of yen)	Dividends per share (yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 21, 2023	Common shares	3,814	65.0	March 31, 2023	June 22, 2023
Board of Directors meeting held on November 10, 2023	Common shares	3,816	65.0	September 30, 2023	December 1, 2023

(2) Dividends with an effective date falling in the following fiscal year, among distributions with record dates belonging to the fiscal year ended March 31, 2024

Resolution	Class of shares	Total amount of dividends (millions of yen)	Source of dividends	Dividends per share (yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 19, 2024	Common shares	4,403	Retained earnings	75.0	March 31, 2024	June 20, 2024

Fiscal year ended March 31, 2025

1. Class and total number of issued shares, and class and number of treasury shares

(Shares)

	Number of shares at beginning of the fiscal year	Increase in number of shares	Decrease in number of shares	Number of shares at end of the fiscal year
Issued shares				
Common shares	59,200,000	–	–	59,200,000
Total	59,200,000	–	–	59,200,000
Treasury shares				
Common shares (See Notes 1, 2)	483,404	4,039	57,450	429,993
Total	483,404	4,039	57,450	429,993

Notes: 1. The increase of 4,039 shares in the number of treasury shares of common shares is due to the gratuitous acquisition of 3,610 restricted shares and the purchase of 429 odd-lot shares.

2. The decrease of 57,450 shares in the number of treasury shares of common shares is due to the disposal of 28,750 shares as restricted share remuneration and the exercise of 28,700 share acquisition rights.

2. Share acquisition rights and treasury share acquisition rights

Title	Breakdown of share acquisition rights	Class of shares to be issued upon exercise of share acquisition rights	Number of shares to be issued upon exercise of share acquisition rights				Balance at the end of the fiscal year (millions of yen)
			Beginning of the fiscal year	Increase in the fiscal year	Decrease in the fiscal year	End of the fiscal year	
Reporting company (parent company)	Share acquisition rights as stock options	–	–	–	–	–	4
Total		–	–	–	–	–	4

3. Dividends

(1) Dividends paid

Resolution	Class of shares	Total amount of dividends (millions of yen)	Dividends per share (yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 19, 2024	Common shares	4,403	75.0	March 31, 2024	June 20, 2024
Board of Directors meeting held on November 8, 2024	Common shares	4,407	75.0	September 30, 2024	December 2, 2024

(2) Dividends with an effective date falling in the following fiscal year, among distributions with record dates belonging to the fiscal year ended March 31, 2025

The following matters are submitted as agenda items (resolution items) for the Ordinary General Meeting of Shareholders to be held on June 18, 2025.

Resolution	Class of shares	Total amount of dividends (millions of yen)	Source of dividends	Dividends per share (yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 18, 2025	Common shares	4,407	Retained earnings	75.0	March 31, 2025	June 19, 2025

Consolidated statement of cash flows

*1 Reconciliation of closing balance of cash and cash equivalents and the related account on the consolidated balance sheet

(Millions of yen)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Cash and deposits	25,096	33,727
Time deposits with maturity over 3 months	(379)	(282)
Cash and cash equivalents	24,717	33,445

*2 Major components of assets and liabilities of consolidated subsidiaries acquired by purchase of shares

Fiscal year ended March 31, 2024

No items to report

Fiscal year ended March 31, 2025

The breakdown of the assets and liabilities at the time of initial consolidation of D’Perception Pte Ltd and its 8 subsidiaries through the purchase of shares as well as the relationship between the acquisition cost of shares and the expenditures for the acquisition (net) are as follows.

	(Millions of yen)
Current assets	4,077
Non-current assets	153
Goodwill	904
Current liabilities	(1,800)
Non-current liabilities	(19)
Foreign currency translation adjustment	(8)
Non-controlling interests	(723)
Acquisition cost	2,583
Cash and cash equivalents	(766)
Net: Expenditures for the acquisition	1,817

Leases

1. Finance lease transactions (as lessee)
   (1) Finance lease transactions that transfer ownership
   The information is omitted as it is immaterial.
   (2) Finance lease transactions that do not transfer ownership
   The information is omitted as it is immaterial.

2. Operating lease transactions (as lessee)
   Future minimum lease payments under non-cancellable operating leases.

(Millions of yen)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Due within one year	1,734	1,944
Due after one year	8,930	7,442
Total	10,665	9,387

Note: Overseas consolidated subsidiaries have adopted the IFRS 16 “Leases” and U.S. GAAP ASC Topic 842 “Leases” guidelines, and lease transactions for which assets and liabilities are recorded on the consolidated balance sheet are not included.

Financial instruments

1. Status of financial instruments

   (1) Policy on financial instruments

   The Group's policy is to procure funds through bank loans. In addition, the Group works to achieve appropriate cash management through effective use of the Group Cash Management Service (CMS). The Company's policy is to use derivatives to reduce the risk of future fluctuations in foreign currency exchange rates and interest rates, and not to engage in speculative transactions.

   (2) Details and risks of financial instruments, and the risk management system

   Trade receivables, such as notes and accounts receivable - trade and electronically recorded monetary claims- operating, are exposed to customer credit risk. With respect to this risk, the Group manages due dates and outstanding balances for each transaction partner, and periodically reviews the credit status of transaction partner.

   Securities and investment securities mainly comprise shares of companies with which the Group has a business relationship, and are exposed to the risk of market price movements. Securities and investment securities are managed by the Finance and Accounting Dept. on a monthly basis based on internal regulations, and the market value and balance are reported to the General Manager of the Finance and Accounting Dept.

   Trade payables such as notes and accounts payable- trade, electronically recorded obligations- operating, and income taxes payable are all due within one year. Trade payables are exposed to liquidity risk, but within the Group, this risk is managed by having each company prepare a monthly cash flow plan, etc.

   Borrowings are mainly used for capital investments of subsidiaries and as working capital for the Company. Borrowings are exposed to liquidity risk, but this is managed through the use of the Group CMS and other methods.

   (3) Supplementary explanation of fair value, etc. of financial instruments

   Since the calculation of the fair value of financial instruments takes into account variable factors, the value may fluctuate if different assumptions are adopted.

2. Fair value, etc. of financial instruments

   The amounts recorded on the consolidated balance sheet, fair values, and the differences between them are as follows.

   Fiscal year ended March 31, 2024

(Millions of yen)

	Amount recorded on the consolidated balance sheet	Fair value	Difference
Securities and investment securities (*2)	8,314	8,314	–
Total assets	8,314	8,314	–
Derivative transactions (*3)	(303)	(303)	–

Fiscal year ended March 31, 2025

(Millions of yen)

	Amount recorded on the consolidated balance sheet	Fair value	Difference
Securities and investment securities (*2)	8,389	8,389	–
Total assets	8,389	8,389	–
Long-term borrowings	2,000	1,930	(69)
Total liabilities	2,000	1,930	(69)
Derivative transactions (*3)	(349)	(349)	–

(*1) "Cash and deposits," "Notes receivable - trade," "Accounts receivable - trade," "Electronically recorded monetary claims - operating," "Notes and accounts payable - trade," "Electronically recorded obligations - operating," "Income taxes payable," and "Short-term borrowings" have been omitted, as these are settled in a short period of time, and their carrying amounts therefore approximate fair value.

(*2) Shares, etc. without market prices are not included in "Securities and investment securities." The carrying amount of these financial instruments on the consolidated balance sheet is as follows.

(Millions of yen)

Title	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Unlisted shares	114	114

(*3) Net receivables and payables arising from derivatives are presented on a net basis, and value of a net payable after totaling of receivables and payables is shown in parentheses.

Notes: 1. Expected redemption amounts of monetary claims and securities with a maturity after the consolidated fiscal year-end date

Fiscal year ended March 31, 2024

(Millions of yen)

	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	After 10 years
Cash and deposits	25,096	–	–	–
Notes receivable - trade	8,526	–	–	–
Accounts receivable - trade	26,186	–	–	–
Electronically recorded monetary claims - operating	24,300	–	–	–
Securities and investment securities				
Held-to-maturity bonds				
(1) Government bonds, local government bonds, etc.	–	–	–	–
(2) Corporate bonds	–	–	–	–
Available-for-sale securities with a maturity				
(1) Bonds (foreign government and corporate bonds)	–	–	–	–
(2) Other	300	–	–	–
Total	84,410	–	–	–

Fiscal year ended March 31, 2025

(Millions of yen)

	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	After 10 years
Cash and deposits	33,727	–	–	–
Notes receivable - trade	4,781	–	–	–
Accounts receivable - trade	26,430	–	–	–
Electronically recorded monetary claims - operating	23,834	–	–	–
Securities and investment securities				
Held-to-maturity bonds				
(1) Government bonds, local government bonds, etc.	–	–	–	–
(2) Corporate bonds	–	–	–	–
Available-for-sale securities with a maturity				
(1) Bonds (foreign government and corporate bonds)	–	–	–	–
(2) Other	300	–	–	–
Total	89,074	–	–	–

2. Scheduled repayment amounts of short-term borrowings and long-term borrowings after the consolidated fiscal year-end date

Fiscal year ended March 31, 2024

(Millions of yen)

	Within 1 year	After 1 year within 2 years	After 2 years within 3 years	After 3 years within 4 years	After 4 years within 5 years	Over 5 years
Short-term borrowings	5,711	–	–	–	–	–
Long-term borrowings	–	–	–	–	–	–
Total	5,711	–	–	–	–	–

Fiscal year ended March 31, 2025

(Millions of yen)

	Within 1 year	After 1 year within 2 years	After 2 years within 3 years	After 3 years within 4 years	After 4 years within 5 years	Over 5 years
Short-term borrowings	9,098	–	–	–	–	–
Long-term borrowings	–	–	–	2,000	–	–
Total	9,098	–	–	2,000	–	–

3. Breakdown of financial instruments by level of fair value

The fair value of financial instruments is classified into the following three levels based on the observability and significance of the inputs used to measure fair value.

Level 1 fair value: Fair values measured using observable inputs that are market prices formed in active markets for the assets or liabilities for which fair value is to be measured

Level 2 fair value: Fair values measured using observable inputs other than those used to calculate Level 1 fair value

Level 3 fair value: Fair values measured using unobservable inputs

When multiple inputs that have a significant impact on the measurement of fair value are used, the fair value is categorized to the level with the lowest priority in the measurement of fair value among the levels to which each input belongs.

(1) Financial instruments carried on the consolidated balance sheet at fair value

Fiscal year ended March 31, 2024

(Millions of yen)

Title	Fair value			
	Level 1	Level 2	Level 3	Total
Securities and investment securities				
Available-for-sale securities				
Shares	8,014	–	–	8,014
Other	–	300	–	300
Total assets	8,014	300	–	8,314
Derivative transactions				
Interest rates and currency	–	303	–	303
Total liabilities	–	303	–	303

Fiscal year ended March 31, 2025

(Millions of yen)

Title	Fair value			
	Level 1	Level 2	Level 3	Total
Securities and investment securities				
Available-for-sale securities				
Shares	8,012	–	–	8,012
Other	–	377	–	377
Total assets	8,012	377	–	8,389
Derivative transactions				
Interest rates and currency	–	349	–	349
Total liabilities	–	349	–	349

(2) Financial instruments apart from those carried on the consolidated balance sheet at fair value

Fiscal year ended March 31, 2024

No items to report

Fiscal year ended March 31, 2025

(Millions of yen)

Title	Fair value			
	Level 1	Level 2	Level 3	Total
Long-term borrowings	–	1,930	–	1,930
Total liabilities	–	1,930	–	1,930

Note: Explanation of the valuation techniques and inputs used to calculate fair value

Securities and investment securities

Shares are listed and valued using stock exchange prices. Because listed shares are traded in active markets, their fair value is classified as Level 1. All other items are mainly negotiable certificates of deposit, which are settled within a short period of time and therefore have fair value approximately equal to the carrying amount. As these are not recognized as quoted prices in active markets, their fair value is classified as Level 2 fair value.

Derivative transactions

Fair value is calculated based on the prices presented by financial institutions, etc. and is classified as Level 2 fair value.

Long-term borrowings

All of other long-term borrowings are with fixed interest rates. These are calculated based on the present value of the total principal and interest, discounted at the interest rate assumed for a similar new loan, and are classified as Level 2 fair value.

Securities

1. Available-for-sale securities

Fiscal year ended March 31, 2024

(Millions of yen)

	Category	Amount recorded on the consolidated balance sheet	Acquisition cost	Difference
Securities whose amount recorded on the consolidated balance sheets exceeds acquisition cost	(1) Shares	7,444	2,659	4,784
	(2) Bonds	–	–	–
	(3) Other	–	–	–
	Subtotal	7,444	2,659	4,784
Securities whose amount recorded on the consolidated balance sheets does not exceed acquisition cost	(1) Shares	570	600	(30)
	(2) Bonds	–	–	–
	(3) Other	300	300	–
	Subtotal	870	900	(30)
Total		8,314	3,560	4,754

Note: Unlisted stocks with no market value (amount recorded on consolidated balance sheet: 76 million yen) are not included in "Available-for-sale securities" in the table above.

Fiscal year ended March 31, 2025

(Millions of yen)

	Category	Amount recorded on the consolidated balance sheet	Acquisition cost	Difference
Securities whose amount recorded on the consolidated balance sheets exceeds acquisition cost	(1) Shares	7,964	2,641	5,323
	(2) Bonds	–	–	–
	(3) Other	–	–	–
	Subtotal	7,964	2,641	5,323
Securities whose amount recorded on the consolidated balance sheets does not exceed acquisition cost	(1) Shares	47	78	(30)
	(2) Bonds	–	–	–
	(3) Other	377	377	–
	Subtotal	424	455	(30)
Total		8,389	3,096	5,292

Note: Unlisted stocks with no market value (amount recorded on consolidated balance sheet: 76 million yen) are not included in "Available-for-sale securities" in the table above.

2. Available-for-sale securities sold

Fiscal year ended March 31, 2024

(Millions of yen)

Category	Sale price	Total gain on sale	Total loss on sale
(1) Shares	981	227	59
(2) Bonds	–	–	–
(3) Other	–	–	–
Total	981	227	59

Fiscal year ended March 31, 2025

(Millions of yen)

Category	Sale price	Total gain on sale	Total loss on sale
(1) Shares	553	41	41
(2) Bonds	–	–	–
(3) Other	–	–	–
Total	553	41	41

Derivative transactions

1. Derivatives of which hedge accounting is not applied

(1) Currency-related

Fiscal year ended March 31, 2024

No items to report

Fiscal year ended March 31, 2025

(Millions of yen)

Categories	Transaction type	Notional amount	Due after one year	Fair value	Gains (losses) on valuation
Transactions other than market transactions	Currency swaps Receive-Yen Pay-U.S.dollar	2,450		(285)	(285)
Total		2,450		(285)	(285)

(2) Interest rates

Fiscal year ended March 31, 2024

No items to report

Fiscal year ended March 31, 2025

(Millions of yen)

Categories	Transaction type	Notional amount	Due after one year	Fair value	Gains (losses) on valuation
Transactions other than market transactions	Interest rate swaps Receive fixed and pay fixed	7,000	7,000	(56)	(56)
	Receive fixed and pay floating	500	500	(8)	(8)
Total		7,500	7,500	(64)	(64)

2. Derivatives of which hedge accounting is applied

Interest rates and currency

Fiscal year ended March 31, 2024

(Millions of yen)

Hedge accounting method	Type of transaction	Major hedged items	Contract amount, etc.	Contract amount, etc. of over 1 year	Fair value
Principle method	Interest rate and currency swap transactions Payment fixed	Interest on long-term loans receivable	2,450	2,450	(303)
	Payment fixed	Interest on short-term loans receivable	–	–	–
Total			2,450	2,450	(303)

Fiscal year ended March 31, 2025

No items to report

Retirement benefits

1. Overview of retirement benefit plans adopted

The Company has both a lump-sum retirement benefit plan and a corporate pension plan as defined benefit plans, and as of April 1, 2016, a portion of the lump-sum retirement benefit plan was transferred to a defined contribution pension plan. Some other consolidated subsidiaries have a lump-sum retirement benefit plan or a corporate pension plan as defined benefit plans.

For lump-sum retirement benefit plans and corporate pension plans that certain consolidated subsidiaries have, retirement benefit liability and retirement benefit expenses are recorded by the simplified method.

Certain consolidated subsidiaries transferred a portion of their lump-sum retirement benefit plans to defined contribution pension plans as of October 1, 2022.

2. Defined benefit plans

(1) Changes in retirement benefit obligations (excluding plans to which the simplified method is applied)

(Millions of yen)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Balance of retirement benefit obligations at beginning of period	17,481	16,365
Service cost	587	519
Interest cost	318	420
Actuarial gains and losses accrued	(1,640)	(1,448)
Retirement benefits paid	(709)	(751)
Foreign currency translation adjustment	327	583
Balance of retirement benefit obligations at end of period	16,365	15,689

(2) Changes in plan assets (excluding plans to which the simplified method is applied)

(Millions of yen)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Balance of plan assets at beginning of period	9,641	11,122
Expected return on plan assets	444	522
Actuarial gains and losses accrued	871	20
Contribution from employer	377	458
Retirement benefits paid	(465)	(538)
Foreign currency translation adjustment	251	502
Balance of plan assets at end of period	11,122	12,087

(3) Changes in retirement benefit liability for plans using the simplified method

(Millions of yen)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Retirement benefit liability at beginning of period	684	704
Retirement benefit expenses	66	75
Retirement benefits paid	(41)	(47)
Decrease due to transfer to defined contribution pension plan	(5)	(5)
Retirement benefit liability at end of period	704	726

(4) Reconciliation between ending balance of retirement benefit obligations and plan assets, and retirement benefit liability/asset recorded in the consolidated balance sheet

(Millions of yen)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Retirement benefit obligations of funded plans	11,373	11,027
Plan assets	(11,122)	(12,087)
	251	(1,059)
Retirement benefit obligations of unfunded plans	5,695	5,388
Net amount of liabilities and assets recorded in the consolidated balance sheet	5,947	4,329
Retirement benefit liability	6,495	5,547
Retirement benefit assets	(548)	(1,218)
Net amount of liabilities and assets recorded in the consolidated balance sheet	5,947	4,329

Note: Includes plans to which the simplified method was applied.

(5) Amounts of retirement benefit expenses and their components

(Millions of yen)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Service cost	587	519
Interest cost	318	420
Expected return on plan assets	(444)	(522)
Amortization of actuarial gains and losses	333	84
Amortization of past service cost	16	16
Retirement benefit expenses calculated using the simplified method	66	75
Retirement benefit expenses for defined benefit plans	878	595

(6) Remeasurements of defined benefit plans, net of tax

The components of remeasurements of defined benefit plans, net of tax (before deduction of income taxes and tax effects) are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Past service cost	16	16
Actuarial gains and losses	2,839	1,585
Total	2,855	1,601

(7) Remeasurements of defined benefit plans

The components of remeasurements of defined benefit plans (before deduction of income taxes and tax effects) are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Unrecognized past service cost	32	16
Unrecognized actuarial gains and losses	(1,887)	(3,472)
Total	(1,854)	(3,456)

(8) Plan assets

(i) Major components of plan assets

The ratio of each major category to total plan assets is as follows:

(%)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Shares	48	46
Bonds	26	27
General account	10	10
Other	16	17
Total	100	100

(ii) Method for setting the long-term expected rate of return on plan assets

To determine the long-term expected rate of return on plan assets, the Company takes into account current and expected allocation of plan assets, and current and expected long-term return rate on various types of assets constituting plan assets.

(9) Actuarial assumptions

Major actuarial assumptions

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Discount rate	1.4 to 5.0%	2.2 to 5.4%
Long-term expected rate of return	3.0 to 7.0%	3.0 to 7.0%
Expected rate of salary increase	1.6 to 10.2%	1.6 to 10.2%

3. Other matters regarding retirement benefits

The amount of assets transferred from the lump-sum retirement benefit plan to the defined contribution pension plan is 21 million yen, which will be transferred over 4 years. The untransferred amount of 10 million yen as of the end of the fiscal year ended March 31, 2024 and the untransferred amount of 4 million yen as of the end of the fiscal year ended March 31, 2025 are included in “accounts payable - other” (“Other” in current liabilities).

4. Defined contribution plans

Required contributions to the defined contribution plan by the Company and its consolidated subsidiaries were 296 million yen in the fiscal year ended March 31, 2024 and 328 million yen in the fiscal year ended March 31, 2025.

Share options, etc.

1. Amount of expenses related to share options and account name

(Millions of yen)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Selling, general and administrative expenses	58	87

2. Details, volume, and changes of share options

(1) Details of share options

	June 18, 2015 Resolution of Board of Directors Share options	June 23, 2016 Resolution of Board of Directors Share options
Category and number of grantees	Directors of the Company (excluding Audit and Supervisory Committee Members) 6 Directors	Directors of the Company (excluding Audit and Supervisory Committee Members) 5 Directors Executive Officers of the Company 2 Executive Officers
Number of share options by type of share (Note 1)	Common shares 29,600 shares	Common shares 26,700 shares
Date of grant	July 13, 2015	July 11, 2016
Vesting conditions	(Note 2)	(Note 2)
Applicable work period	Not determined.	Not determined.
Exercise period	From July 13, 2015 to July 12, 2045	From July 11, 2016 to July 10, 2046

Note: 1. Figures shown are after conversion into number of shares.

2. The conditions for exercising of share options are as follows:

(1) The holder of share options may exercise such rights only in full and only within the exercise period in the table, during the period from the day following the loss of their position as a director of the Company until the day after 10 days have elapsed (if the 10th day falls on a holiday, until the previous business day).

(2) Notwithstanding the provision in (1) above, if a merger agreement under which the Company becomes a dissolving company, or a share exchange agreement or share transfer plan under which the Company becomes a wholly owned subsidiary, is approved at a general meeting of shareholders (or by a resolution of the board of directors if approval at a general meeting of shareholders is not required), the holder may exercise share options only within 30 days from the day following such approval.

(3) If the holder of share options dies, their heir(s) may exercise the rights.

(4) If, as a result of exercising these share options, the total number of issued shares of the Company would exceed the number of authorized shares at that time, share options cannot be exercised.

(5) Share options cannot be exercised in fractions of less than one whole right.

(2) Volume and changes of share options

Share options that existed during the fiscal year ended March 31, 2025 are included, and number of stock options has been converted into number of shares.

(i) Number of share options

	June 18, 2015 Resolution of Board of Directors Share options	June 23, 2016 Resolution of Board of Directors Share options
Before vesting (shares)		
Fiscal year ended March 31, 2024	–	–
Granted	–	–
Lapsed	–	–
Vested	–	–
Not yet vested	–	–
After vesting (shares)		
Fiscal year ended March 31, 2024	14,500	16,700
Vested	–	–
Exercised	14,500	14,200
Lapsed	–	–
Unexercised balance	–	2,500

(ii) Unit price information

	June 18, 2015 Resolution of Board of Directors Share options	June 23, 2016 Resolution of Board of Directors Share options
Exercise price (Yen)	1	1
Average share price upon exercise (Yen)	3,166	3,166
Fair value on date of grant (Yen)	1,779	1,802

3. Method for estimating the number of stock options vested

As it is difficult, in principle, to reasonably estimate the number of share options that will be forfeited in the future, the number here reflects only share options that have actually been forfeited.

Tax effect accounting

1. Breakdown of deferred tax assets and deferred tax liabilities by cause

(Millions of yen)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Deferred tax assets		
Allowance for doubtful accounts	60	50
Accrued enterprise tax	199	197
Provision for bonuses	951	1,028
Provision for product warranties	48	14
Retirement benefit liability	2,377	1,343
Depreciation excess	555	593
Investment securities	477	484
Tax loss carryforwards (Note 2)	2,663	2,823
Other	2,505	2,232
Subtotal of deferred tax assets	9,841	8,768
Valuation allowance for tax loss carryforwards (Note 2)	(2,652)	(2,823)
Valuation allowance for future deductible temporary differences, etc.	(812)	(732)
Valuation allowance subtotal (Note 1)	(3,464)	(3,556)
Total of deferred tax assets	6,376	5,211
Deferred tax liabilities		
Valuation difference on available-for-sale securities	(1,462)	(1,678)
Intangible assets	(116)	(108)
Other	(1,076)	(484)
Total of deferred tax liabilities	(2,654)	(2,270)
Net deferred tax assets	3,722	2,941

Notes: 1. The main change in valuation allowance was an increase in the valuation allowance related to tax loss carryforwards.
2. Tax loss carryforwards and their deferred tax asset by carryforwards expiration date

Fiscal year ended March 31, 2024

(Millions of yen)

	Within 1 year	After 1 year within 2 years	After 2 years within 3 years	After 3 years within 4 years	After 4 years within 5 years	Over 5 years	Total
Tax loss carryforwards (*1)	35	19	14	48	21	2,524	2,663
Valuation allowance	(35)	(19)	(14)	(48)	(21)	(2,513)	(2,652)
Deferred tax assets	–	–	–	–	–	11	(*2) 11

(*1) Tax loss carryforwards are calculated by multiplying the statutory effective tax rate.

(*2) Deferred tax assets of 11 million yen were recorded for tax loss carryforwards of 2,663 million yen (amount multiplied by the statutory effective tax rate). With regard to tax loss carryforwards, no valuation allowance has been recognized for the portion deemed recoverable based on the expectation of future taxable income and the expected reversal of future taxable temporary differences.

Fiscal year ended March 31, 2025

(Millions of yen)

	Within 1 year	After 1 year within 2 years	After 2 years within 3 years	After 3 years within 4 years	After 4 years within 5 years	Over 5 years	Total
Tax loss carryforwards (*3)	43	44	24	15	55	2,639	2,823
Valuation allowance	(43)	(44)	(24)	(15)	(55)	(2,639)	(2,823)
Deferred tax assets	–	–	–	–	–	–	–

(*3) Tax loss carryforwards are calculated by multiplying the statutory effective tax rate.

2. When there is a significant difference between the statutory effective tax rate and the effective income tax rate after application of tax-effect accounting, the main components of this difference

(%)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Statutory effective tax rate	30.60	30.60
(Adjustments)		
Entertainment and other expenses that are never tax deductible	0.33	0.27
Income not taxable permanently, such as dividend income	(1.01)	(0.24)
Per capita inhabitant tax	0.48	0.52
Tax credits	(2.48)	(1.43)
Changes in deferred tax assets at the end of the fiscal year due to changes in tax rates	0.09	(0.25)
Differences in tax rates of foreign subsidiaries	(0.13)	0.27
Amortization of goodwill	0.26	0.38
Consolidation adjustments related to costs for acquiring subsidiaries	–	0.42
Changes in valuation allowance	(0.05)	0.77
Other	0.87	1.37
Effective income tax rate after application of tax-effect accounting	28.96	32.68

3. Adjustments to the amount of deferred tax assets and deferred tax liabilities due to change in income tax rates

Due to the 'Act for Partial Amendment of the Income Tax Act, etc.' (Act No. 13 of 2025) by the Diet on March 31, 2025, a 'Special Corporate Tax for National Defense' will be imposed starting from business years beginning on or after April 1, 2026. Accordingly, deferred tax assets and deferred tax liabilities related to temporary differences expected to reverse in business years beginning on or after April 1, 2026, have been calculated using a revised effective statutory tax rate of 31.5% (previously 30.6%). The impact of this tax rate change is immaterial.

Business combinations

Business combination through acquisition

1. Outline of the business combination
   (1) Name of the acquired company and description of its business
   Name of the acquired company: D'Perception Pte Ltd
   Business description: interior design and interior construction of office facilities and commercial facilities
   (2) Main reasons for the business combination
   By promoting collaboration between D'Perception Pte Ltd, which has strengths in spatial design and comprehensive construction, and our group, which has strengths in the development, handling and construction of interior products, the Company aims to provide comprehensive and diverse services that meet the needs of Southeast Asian markets and customers, and to expand its business in China, India and other Asian countries.
   (3) Date of the business combination
   July 1, 2024
   (4) Legal form of the business combination
   Acquisition of shares in cash
   (5) Name of the company after the business combination
   No change
   (6) Percentage of voting rights acquired
   70%
   (7) Main grounds for determining the acquiring company
   Due to the Company's acquisition of shares in exchange for cash.

2. Period of financial results of the acquired company included in the consolidated financial statements
   Period from July 1, 2024 to December 31, 2024 is included.

3. Acquisition cost of the acquired company and breakdown of consideration by type

(Millions of yen)

Consideration for the acquisition:	Cash and deposits	2,583
Acquisition cost:		2,583

4. Description and amount of major acquisition-related costs

   Advisory fees, etc.: 258 millions of yen

5. Amount of goodwill incurred, reasons for the goodwill incurred, and the method and period of amortization
   (1) Amount of goodwill incurred
   904 millions of yen
   The amount of goodwill was provisionally calculated because the allocation of acquisition costs had not been completed at the end of the current consolidated fiscal year.
   (2) Reasons for the goodwill incurred
   Goodwill was incurred from expected excess earnings power arising from future business development
   (3) Method and period of amortization
   Goodwill will be amortized on a straight-line basis over 10 years.

6. Assets received and liabilities assumed on the date of business combination and their breakdown

(Millions of yen)

Current assets	4,077
Non-current assets	153
Total assets	4,230
Current liabilities	1,800
Non-current liabilities	19
Total liabilities	1,819

7. Allocating the acquisition cost

At the end of the current consolidated fiscal year, the identification of identifiable assets and liabilities at the date of the business combination and the calculation of fair value have not been completed, and the allocation of acquisition costs has not been completed. Therefore, provisional accounting treatment has been performed based on reasonable information available at that time.

8. Estimated amount of the impact of the business combination on the consolidated statements of income and comprehensive income for the fiscal year under review assuming that it had been completed at the beginning of the fiscal year under review, and its calculation method

It is not stated because it is difficult to calculate the estimated amount for the current consolidated fiscal year.

Asset retirement obligations

Asset retirement obligations carried on the consolidated balance sheet

Fiscal year ended March 31, 2024

1. Overview of asset retirement obligations

Obligations to restore properties to their original condition based on real estate lease contracts for branch offices, logistics centers, showrooms, etc.

2. Calculation method for amount of asset retirement obligations

The expected period of use is the estimated useful life of major non-current assets, etc., with the amount of asset retirement obligations calculated using a discount rate of 0.00% to 2.14%.

3. Changes in total amount of asset retirement obligations

(Millions of yen)

	Fiscal year ended March 31, 2024
Balance at beginning of period	1,153
Increase due to acquisition of tangible fixed assets	367
Increase due to change in estimates	218
Adjustments due to passage of time	9
Other increases (decreases)	36
Balance at end of period	1,784

4. Changes in estimated amount of asset retirement obligations

During the fiscal year ended March 31, 2024, the Company changed its estimate of asset retirement obligations that were recorded as restoration obligations in connection with real estate lease contracts, due to the availability of new information on the restoration costs required upon tenants vacating the premises.

An increase of 218 million yen due to this change in estimates has been added to the pre-change balance of asset retirement obligations.

Since the change in estimate was made at the end of the fiscal year ended March 31, 2024, there is no effect on profit and loss for this fiscal year.

Fiscal year ended March 31, 2025

The information on total amount of asset retirement obligations is omitted as it is immaterial.

Rental and other investment property

The Group owns warehouses and other facilities for lease (including land) in Hyogo Prefecture and other areas. Net rental income from these leased properties in the fiscal year ended March 31, 2024 was 310 million yen (net rental income was recorded under non-operating income, and net rental expenses were recorded under non-operating expenses). Net rental income from these leased properties in the fiscal year ended March 31, 2025 was 320 million yen (net rental income was recorded under non-operating income, and net rental expenses were recorded under non-operating expenses).

Carrying amounts in the consolidated balance sheet, increase or decrease and fair values of the rental and other investment property during the period are as follows:

(Millions of yen)

		Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Amount recorded on the consolidated balance sheet			
	Balance at beginning of period	5,118	5,037
	Increase (decrease) during period	(80)	19
	Balance at end of period	5,037	5,057
Fair value at end of period		6,445	7,815

Notes: 1. The consolidated balance sheet amount is the acquisition cost less accumulated depreciation and accumulated impairment losses .
2. Regarding the amount of increase or decrease during the period, the decrease in the fiscal year ended March 31, 2024 was depreciation (80 million yen). The increase in the fiscal year ended March 31, 2025 was transfers from business assets to rental properties (89 million yen), and the decrease was depreciation (70 million yen).
3. The fair value on the consolidated closing date represents the amount based on real estate appraisal by external real estate appraisers for major properties, and for other properties, it is based on an adjusted amount using a certain appraisal amount or an index considered to appropriately reflect the market price.

Revenue recognition

1. Breakdown of revenue from contracts with customers

Fiscal year ended March 31, 2024

(Millions of yen)

	Reportable segment			Total
	Domestic Interior	Domestic Exterior	Overseas	
Goods transferred at a point in time	150,163	6,415	22,703	179,282
Goods transferred over a period of time	8,987	–	1,589	10,576
Revenue from contracts with customers	159,151	6,415	24,292	189,859
Other revenue	–	–	–	–
Sales to external customers	159,151	6,415	24,292	189,859

Fiscal year ended March 31, 2025

(Millions of yen)

	Reportable segment			Total
	Domestic Interior	Domestic Exterior	Overseas	
Goods transferred at a point in time	152,911	6,599	25,228	184,738
Goods transferred over a period of time	11,073	–	4,566	15,639
Revenue from contracts with customers	163,984	6,599	29,794	200,378
Other revenue	–	–	–	–
Sales to external customers	163,984	6,599	29,794	200,378

2. Information that provides a basis for understanding revenue from contracts with customers

   This is as described in "Notes to consolidated financial statements - Significant matters forming the basis for preparation of consolidated financial statements - 4. Accounting policies - (5) Basis for recognizing significant revenue and expenses."

3. Information on the relationship between the satisfaction of performance obligations based on contracts with customers and cash flow arising from these contracts, and information on the amount and timing of revenue expected to be recognized in future fiscal years from contracts existing at the end of the fiscal year ended March 31, 2025

   (1) Balance of contract assets and contract liabilities

(Millions of yen)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Receivables from contracts with customers (balance at beginning of period)	55,996	59,013
Receivables from contracts with customers (balance at end of period)	59,013	55,046
Contract assets (balance at beginning of period)	214	235
Contract assets (balance at end of period)	235	3,833
Contract liabilities (balance at beginning of period)	1,026	1,208
Contract liabilities (balance at end of period)	1,208	1,515

Notes: 1. Contract liabilities primarily consist of advances received from customers. Contract liabilities are reversed as revenue is recognized.

2. The amount of revenue recognized during the fiscal year ended March 31, 2025 included in the balance of contract liabilities as of the beginning of the period was 1,208 million yen.

   (2) Transaction prices allocated to remaining performance obligations

   In noting the transaction prices allocated to remaining performance obligations, the Company and its consolidated subsidiaries apply an expedient practical method and do not include contracts with an initially expected contract term of one year or less. The total amount of transaction price allocated to remaining performance obligations, and the expected timing of revenue recognition, are as follows.

(Millions of yen)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Within 1 year	408	1,763
After 1 year within 2 years	2	11
After 2 year within 3 years	–	6
Over 3 years	–	6
Total	411	1,788

Segment information, etc.

Segment information

1. Overview of reportable segments

The Group's reportable segments are components of the Group for which separate financial information is available. These are subject to periodic review by the Board of Directors for the purpose of determining the allocation of management resources and evaluating performance.

The merchandise and services handled by each of the Group's operating companies differ. The Domestic Interior Segment is handled by the Company itself, as well as Fairtone Co., Ltd., Sangetsu Vosne Corporation, Sangetsu Okinawa Corporation, CREANATE Inc., and Kurosukikaku Corporation, while the Domestic Exterior Segment is handled by Sungreen Co., Ltd. and the Overseas Segment is handled by KOROSEAL INTERIOR PRODUCTS HOLDINGS, INC., Goodrich Global Holdings Pte. Ltd., GOODRICH GLOBAL LIMITED and D'Perception Pte Ltd. Across the Group, each company shares necessary information and cooperates on sales while formulating individual strategies and conducting business activities. The Company's Board of Directors makes decisions and evaluates business performance based on the reports of business results and financial information received from each operating company.

The Domestic Interior Segment is engaged in planning, manufacturing, and sales of wallcoverings, flooring materials, fabrics (curtains and upholstery), and other interior design materials, as well as business activities involved in overall space creation, from design to construction. The Domestic Exterior Segment is engaged in the sale of exterior products such as gates, fences, and carports, as well as providing design proposals and construction for outdoor spaces, while the Overseas Segment is engaged in manufacturing and sales of interior design materials, space design and comprehensive construction overseas.

2. Method for calculating amounts of net sales, profit or loss, assets, liabilities, and other items by reportable segment

The accounting method for the operating segments that are reportable is largely the same as described in "Significant matters forming the basis for preparation of consolidated financial statements."

Profits or losses of the reportable segments are figures based on operating profit.

Intersegment revenue or transfers are based on actual market price.

3. Information on amounts of net sales, profit or loss, assets, liabilities, and other items by reportable segment

Fiscal year ended March 31, 2024

(Millions of yen)

	Domestic Interior	Domestic Exterior	Overseas	Total	Adjusted amount (Note 1)	Amount recorded on the consolidated financial statements (Note 2)
Net sales						
Sales to external customers	159,151	6,415	24,292	189,859	–	189,859
Intersegment net sales or transfers	5	47	–	53	(53)	–
Total	159,157	6,462	24,292	189,912	(53)	189,859
Segment profit (loss)	19,489	(77)	(311)	19,100	2	19,103
Segment assets	165,528	8,005	16,753	190,286	(19,536)	170,750
Other items						
Depreciation	2,595	37	606	3,239	(2)	3,236
Amortization of goodwill	162	–	6	169	–	169
Impairment losses	165	0	–	166	–	166
Increase in property, plant and equipment and intangible assets	4,759	127	242	5,129	(67)	5,061

Notes: 1. All adjustments of segment profits (losses) , segment assets, and other items are performed by eliminating transactions among segments.

2. Segment profits (losses) are adjusted to operating profit in the consolidated statement of income.

3. Depreciation and increases in property, plant and equipment and intangible assets include long-term prepaid expenses and depreciation related to these expenses.

Fiscal year ended March 31, 2025

(Millions of yen)

	Domestic Interior	Domestic Exterior	Overseas	Total	Adjusted amount (Note 1)	Amount recorded on the consolidated financial statements (Note 2)
Net sales						
Sales to external customers	163,984	6,599	29,794	200,378	–	200,378
Intersegment net sales or transfers	1	12	–	13	(13)	–
Total	163,986	6,611	29,794	200,392	(13)	200,378
Segment profit (loss)	18,940	17	(785)	18,171	2	18,174
Segment assets	175,481	7,936	22,588	206,006	(22,147)	183,859
Other items						
Depreciation	2,452	52	678	3,183	(2)	3,180
Amortization of goodwill	162	–	71	234	–	234
Impairment losses	–	16	78	94	–	94
Increase in property, plant and equipment and intangible assets	5,593	214	341	6,149	(15)	6,134

Notes: 1. All adjustments of segment profits (losses) , segment assets, and other items are performed by eliminating transactions among segments.

2. Segment profits (losses) are adjusted to operating profit in the consolidated statement of income.

3. Depreciation and increases in property, plant and equipment and intangible assets include long-term prepaid expenses and depreciation related to these expenses.

Related information

Fiscal year ended March 31, 2024

1. Information about products and services

   The information is omitted because the same information is disclosed in "Segment information."

2. Information about geographical areas

   (1) Net sales (Millions of yen)

Japan	North America	Singapore	China	Other	Total
165,590	18,700	2,108	607	2,852	189,859

Note: Net sales is classified by country or region based on customers' locations.

(2) Property, plant and equipment (Millions of yen)

Japan	North America	Other	Total
35,583	3,869	455	39,909

3. Information about main customers

   Of sales to external customers, there are no sales to major customers that account for 10% or more of net sales in the consolidated statement of income.

Fiscal year ended March 31, 2025

1. Information about products and services

   The information is omitted because the same information is disclosed in "Segment information."

2. Information about geographical areas

   (1) Net sales (Millions of yen)

Japan	North America	Singapore	China	Other	Total
170,590	20,995	4,916	730	3,145	200,378

Note: Net sales is classified by country or region based on customers' locations.

(2) Property, plant and equipment (Millions of yen)

Japan	North America	Other	Total
37,270	3,978	416	41,665

3. Information about main customers

   Of sales to external customers, there are no sales to major customers that account for 10% or more of net sales in the consolidated statement of income.

Information about impairment losses of non-current assets by reportable segment

Fiscal year ended March 31, 2024

(Millions of yen)

	Domestic Interior	Domestic Exterior	Overseas	Company-wide, elimination	Total
Impairment losses	165	0	–	–	166

Fiscal year ended March 31, 2025

(Millions of yen)

	Domestic Interior	Domestic Exterior	Overseas	Company-wide, elimination	Total
Impairment losses	–	16	78	–	94

Information about amortization and unamortized balance of goodwill by reportable segment

Fiscal year ended March 31, 2024

(Millions of yen)

	Domestic Interior	Domestic Exterior	Overseas	Company-wide, elimination	Total
Amortization in the fiscal year	162	–	6	–	169
Balance as of March 31, 2024	1,146	–	26	–	1,173

Fiscal year ended March 31, 2025

(Millions of yen)

	Domestic Interior	Domestic Exterior	Overseas	Company-wide, elimination	Total
Amortization in the fiscal year	162	–	71	–	234
Balance as of March 31, 2025	983	–	852	–	1,836

Information about gain on bargain purchase by reportable segment

No items to report

Related party information

Fiscal year ended March 31, 2024

The information is omitted as it is immaterial.

Fiscal year ended March 31, 2025

The information is omitted as it is immaterial.

Per share information

(Yen)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Net assets per share	1,816.16	1,923.28
Earnings per share	243.44	213.90
Diluted earnings per share	243.30	213.86

Notes: 1. The bases for calculating net assets per share are as follows:

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Total of net assets (millions of yen)	106,709	113,781
Amount to be deducted from total amount of net assets (millions of yen)	70	750
(of which share acquisition rights (millions of yen))	(55)	(4)
(of which non-controlling interests (millions of yen))	(14)	(745)
End of period net assets related to common shares (Millions of yen)	106,638	113,031
Number of common shares used to calculate net assets per share at the end of the fiscal year (thousands of shares)	58,716	58,770

2. The bases for calculating net income per share and diluted net income per share are as follows:

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Earnings per share		
Profit attributable to owners of parent (Millions of yen)	14,291	12,567
Amount not attributable to common shareholders (Millions of yen)	–	–
Profit attributable to owners of parent pertaining to common shares (Millions of yen)	14,291	12,567
Average number of common shares during the period (Thousands of shares)	58,706	58,756
Diluted earnings per share		
Adjusted amount of profit attributable to owners of parent (Millions of yen)	–	–
Increase in common shares (Thousands of shares)	33	8
(of which share acquisition rights (thousands of shares))	(33)	(8)

Significant subsequent events

No items to report

(v) Annexed consolidated detailed schedules

Consolidated detailed schedule of corporate bonds

No items to report

Consolidated detailed schedule of borrowings

Title	Balance at beginning of period (Millions of yen)	Balance at end of period (Millions of yen)	Average interest rate (%)	Payment due
Short-term borrowings	5,711	9,098	0.82	–
Current portion of long-term borrowings	–	–	–	–
Current portion of lease obligations	522	509	–	–
Long-term borrowings (excluding current portion)	–	2,000	0.35	2028
Lease obligations (excluding current portion)	1,251	1,177	–	2026–2032
Other interest-bearing liabilities	–	–	–	–
Total	7,484	12,785	–	–

Notes: 1. "Average interest rate" of borrowings represents the weighted average interest rate with respect to the ending balance.

2. The average interest rate on lease obligations is not stated because lease obligations are recorded on the consolidated balance sheets at the amount before deducting the amount equivalent to interest included in the total lease payments.

3. The repayment schedule of long-term borrowings and lease obligations (excluding current portion) within five years after the consolidated fiscal year-end date is as follows:

(Millions of yen)

	After 1 year within 2 years	After 2 years within 3 years	After 3 years within 4 years	After 4 years within 5 years
Long-term borrowings	–	–	2,000	–
Lease obligations	411	306	218	190

Consolidated detailed schedule of asset retirement obligations

The schedule of asset retirement obligations is omitted because the items to be presented in this schedule are presented as notes stipulated in Article 15-23 of the Regulations on Consolidated Financial Statements.

(2) Other

Quarterly information for the fiscal year ended March 31, 2025

Cumulative period	Six months ended September 30, 2024	Fiscal year ended March 31, 2025
Net sales (Millions of yen)	93,878	200,378
Profit before income taxes (Millions of yen)	7,577	18,695
Profit attributable to owners of parent (Millions of yen)	4,995	12,567
Earnings per share (Yen)	85.04	213.90

2. Non-consolidated Financial Statements and Other Information

(1) Non-consolidated Financial Statements

(i) Non-consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2024	As of March 31, 2025
Assets		
Current assets		
Cash and deposits	16,346	25,243
Notes receivable - trade	*2 7,714	4,244
Electronically recorded monetary claims - operating	*1,*2 23,906	*1 23,316
Accounts receivable - trade	*1 19,753	*1 18,867
Contract assets	81	244
Securities	300	300
Merchandise and finished goods	14,958	15,557
Work in process	20	—
Raw materials and supplies	2,102	1,677
Short-term loans receivable from subsidiaries and associates	4,600	7,499
Other	*1 935	*1 1,150
Allowance for doubtful accounts	(100)	(44)
Total current assets	90,617	98,056
Non-current assets		
Property, plant and equipment		
Buildings	8,802	8,326
Structures	129	118
Machinery and equipment	2,241	2,182
Vehicles	135	98
Tools, furniture and fixtures	753	765
Land	13,447	13,320
Leased assets	2	1
Construction in progress	31	16
Total property, plant and equipment	25,544	24,830
Intangible assets		
Software	1,103	1,306
Other	70	70
Total intangible assets	1,174	1,376
Investments and other assets		
Investment securities	7,775	7,825
Shares of subsidiaries and associates	12,941	14,702
Long-term loans receivable from subsidiaries and associates	8,336	7,400
Investment property	4,888	4,945
Deferred tax assets	3,567	3,347
Insurance funds	299	306
Guarantee deposits	1,674	1,815
Other	354	823
Allowance for doubtful accounts	(11)	(11)
Total investments and other assets	39,825	41,155
Total non-current assets	66,544	67,362
Total assets	157,162	165,419

(Millions of yen)

	As of March 31, 2024	As of March 31, 2025
Liabilities		
Current liabilities		
Electronically recorded obligations - operating	*1 15,084	*1 13,333
Accounts payable - trade	*1 11,437	*1 11,059
Contract liabilities	53	58
Short-term borrowings	5,711	9,098
Short-term borrowings from subsidiaries and associates	1,348	2,744
Lease liabilities	0	0
Accounts payable - other	*1 3,396	*1 2,906
Income taxes payable	2,148	2,791
Provision for bonuses	2,743	2,843
Provision for bonuses for directors (and other officers)	134	95
Provision for product warranties	140	112
Other	1,631	1,935
Total current liabilities	43,829	46,978
Non-current liabilities		
Long-term borrowings	—	2,000
Lease liabilities	1	1
Provision for retirement benefits	6,054	6,077
Asset retirement obligations	1,699	1,609
Long-term deposits received	665	713
Other	303	349
Total non-current liabilities	8,725	10,751
Total liabilities	52,554	57,729
Net assets		
Shareholders' equity		
Share capital	13,616	13,616
Capital surplus		
Legal capital surplus	20,005	20,005
Other capital surplus	24	68
Total capital surplus	20,030	20,074
Retained earnings		
Legal retained earnings	3,404	3,404
Other retained earnings	65,094	67,752
General reserve	45,000	45,000
Retained earnings brought forward	20,094	22,752
Total retained earnings	68,498	71,156
Treasury shares	(791)	(698)
Total shareholders' equity	101,353	104,148
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	3,218	3,536
Deferred gains or losses on hedges	(20)	—
Total valuation and translation adjustments	3,197	3,536
Share acquisition rights	55	4
Total net assets	104,607	107,689
Total liabilities and net assets	157,162	165,419

(ii) Non-consolidated Statement of Income

(Millions of yen)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Net sales	*1 150,528	*1 155,410
Cost of sales	*1 108,639	*1 112,465
Gross profit	41,889	42,944
Selling, general and administrative expenses		
Sample books expenses	3,103	2,632
Provision of allowance for doubtful accounts	(46)	(56)
Salaries and allowances	6,917	7,410
Provision for bonuses	2,743	2,843
Provision for bonuses for directors (and other officers)	134	95
Retirement benefit expenses	698	511
Provision for product warranties	1	(34)
Rent expenses	1,243	1,606
Depreciation	1,188	1,016
Other	8,508	9,925
Total selling, general and administrative expenses	24,490	25,950
Operating profit	17,399	16,994
Non-operating income		
Interest and dividend income	*1 802	*1 471
Rental income from real estate	427	429
Other	90	94
Total non-operating income	1,320	995
Non-operating expenses		
Interest expenses	*1 241	*1 228
Foreign exchange losses	70	51
Rental expenses on real estate	119	109
Loss on valuation of interest rate swaps	—	64
Other	5	6
Total non-operating expenses	436	460
Ordinary profit	18,283	17,528
Extraordinary income		
Gain on sale of non-current assets	*2 0	*2 0
Gain on sale of investment securities	227	41
Subsidy income	—	*5 223
Gain on liquidation of subsidiaries and associates	*1,*6 199	—
Total extraordinary income	428	264
Extraordinary losses		
Loss on valuation of shares of subsidiaries and associates	—	*7 1,081
Loss on sale of non-current assets	—	*3 3
Loss on retirement of non-current assets	*4 14	*4 16
Loss on sale of investment securities	59	41
Loss on valuation of investment securities	11	—
Impairment losses	165	—
Total extraordinary losses	252	1,142
Profit before income taxes	18,458	16,650
Income taxes - current	5,337	5,177
Income taxes - deferred	(213)	3
Total income taxes	5,123	5,181
Profit	13,335	11,469

(iii) Non-consolidated Statements of Changes in Equity
Fiscal year ended March 31, 2024

(Millions of yen)

	Shareholders' equity									
	Share capital	Capital surplus			Retained earnings				Treasury shares	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Total retained earnings		
						General reserve	Retained earnings brought forward			
Balance at beginning of period	13,616	20,005	—	20,005	3,404	45,000	14,389	62,793	(849)	95,566
Changes during period										
Dividends of surplus							(7,630)	(7,630)		(7,630)
Profit							13,335	13,335		13,335
Purchase of treasury shares									(1)	(1)
Disposal of treasury shares			23	23					46	70
Exercise of share acquisition rights			1	1					12	13
Net changes in items other than shareholders' equity										
Total changes during period	—	—	24	24	—	—	5,704	5,704	58	5,787
Balance at end of period	13,616	20,005	24	20,030	3,404	45,000	20,094	68,498	(791)	101,353

	Valuation and translation adjustments			Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at beginning of period	1,238	(39)	1,199	69	96,835
Changes during period					
Dividends of surplus					(7,630)
Profit					13,335
Purchase of treasury shares					(1)
Disposal of treasury shares					70
Exercise of share acquisition rights					13
Net changes in items other than shareholders' equity	1,979	19	1,998	(13)	1,984
Total changes during period	1,979	19	1,998	(13)	7,772
Balance at end of period	3,218	(20)	3,197	55	104,607

Fiscal year ended March 31, 2025

(Millions of yen)

	Shareholders' equity									
		Capital surplus			Retained earnings					
						Other retained earnings				
	Share capital	Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	General reserve	Retained earnings brought forward	Total retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	13,616	20,005	24	20,030	3,404	45,000	20,094	68,498	(791)	101,353
Changes during period										
Dividends of surplus							(8,811)	(8,811)		(8,811)
Profit							11,469	11,469		11,469
Purchase of treasury shares									(1)	(1)
Disposal of treasury shares			39	39					47	86
Exercise of share acquisition rights			4	4					46	51
Net changes in items other than shareholders' equity										
Total changes during period	—	—	43	43	—	—	2,658	2,658	92	2,794
Balance at end of period	13,616	20,005	68	20,074	3,404	45,000	22,752	71,156	(698)	104,148

	Valuation and translation adjustments				
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	Share acquisition rights	Total net assets
Balance at beginning of period	3,218	(20)	3,197	55	104,607
Changes during period					
Dividends of surplus					(8,811)
Profit					11,469
Purchase of treasury shares					(1)
Disposal of treasury shares					86
Exercise of share acquisition rights					51
Net changes in items other than shareholders' equity	318	20	339	(51)	287
Total changes during period	318	20	339	(51)	3,082
Balance at end of period	3,536	—	3,536	4	107,689

Notes to non-consolidated financial statements

Significant accounting policies

1. Standards and methods for valuation of securities

   Shares of subsidiaries and affiliates are stated at cost determined by the moving average method.

   Available-for-sale securities

   Items other than stocks, etc., which do not have a market price, are stated at fair value (valuation differences are directly recorded in shareholders' equity, and the cost of securities sold is computed based on the moving average method).

   Shares with no market price are stated at cost determined by the moving average method.

2. Standards and methods for valuation of derivatives

   Mainly stated at fair value

3. Standards and methods for valuation of inventory

   Mainly stated at cost using the moving average method (carrying amounts on the balance sheet are subject to the book value reduction method based on decreased profitability)

4. Depreciation or amortization method for non-current assets

   (1) Property, plant and equipment (excluding leased assets)

   The declining balance method is applied.

   Major useful lives are as follows.

Buildings	15–50 years
Machinery and equipment	12–17 years

   (2) Intangible assets (excluding leased assets)

   The straight-line method is applied.

   Software for internal use is amortized over its estimated useful life (5 years).

   (3) Leased assets

   Leased assets related to finance lease transactions that transfer ownership

   The same depreciation method applied to non-current assets owned by the Company is applied.

   Leased assets related to finance lease transactions that do not transfer ownership

   Depreciation is calculated using the straight-line method, with the lease period being the useful life and the residual value being zero.

5. Accounting policy for translation of foreign currency assets or liabilities into Japanese yen

   Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot exchange rate prevailing as of the closing date, and translation differences are accounted for as profit or loss.

6. Standards for recording provisions and allowances

   (1) Allowance for doubtful accounts

   To prepare for credit losses on receivables, loans, etc., an estimated uncollectable amount is provided at the amount estimated by using the historical rate of credit loss for general receivables, and based on individual consideration of collectability for specific receivables such as highly doubtful receivables.

   (2) Provision for product warranties

   For certain products, goods, etc. found to be defective, etc. after sale, the Company records the estimated amount that may be claimed against the Company for claims, etc. arising from such defects.

   (3) Provision for bonuses

   To provide for payment of bonuses to employees, of the estimated amount of bonuses to be paid, the amount estimated to cover the bonus payment for services rendered by employees during the fiscal year under review is provided.

   (4) Provision for bonuses for directors (and other officers)

   To provide for the payment of bonuses to directors, an amount accrued for the fiscal year under review is recorded based on the calculation method determined by the Company.

   (5) Provision for retirement benefits

   To prepare for retirement benefits for employees, a provision is recorded based on the estimated amounts of retirement benefit obligation and plan assets at the end of the fiscal year under review.

   (i) Method of attributing expected retirement benefits to periods

   In the calculation of retirement benefit obligations, expected retirement benefits are attributed to the period up to the end of the fiscal year under review on a benefit formula basis.

   (ii) Method of amortizing actuarial gains and losses and past service cost

   Past service cost is amortized using the straight-line method over a certain number of years (10 years) within the average remaining service years of employees when incurred.

   Actuarial gains and losses are amortized using the straight-line method over a certain period within the average remaining service years (10 years) of employees when incurred in each fiscal year, from the fiscal year following the accrual of each gain or loss.

7. Basis for recognizing revenue and expenses

The principal performance obligations of the Company related to revenue from contracts with customers and the usual times at which such performance obligations are satisfied (the usual times at which revenue is recognized) are as follows.

(1) Sale of merchandise

The Company is mainly engaged in the sale of wallcoverings, flooring materials, fabrics, and other interior materials. At the point in time that control of this merchandise is transferred to the customer, revenue is recognized at the amount expected to be received in exchange for the merchandise. However, for domestic sales of merchandise, if a normal period of time will elapse between the shipment of the merchandise and the transfer of control to the customer, the Company applies the alternative treatment prescribed in paragraph 98 of the Implementation Guidance on Accounting Standard for Revenue Recognition, and recognizes revenue at the time of shipment. With respect to the sale of certain interior merchandise, the Company does not carry inventory and has determined that it is acting as an agent in transactions because its performance obligation is to arrange for the merchandise to be provided by other parties. For transactions deemed to qualify as agent transactions, the Company recognizes as revenue the net amount received in exchange for merchandise provided by another party, less the amount paid to such other party. The transaction price is calculated based on the price agreed with the customer minus sales commission, etc. Consideration for transactions is received within approximately 6 months from the satisfaction of the performance obligation and does not include a significant financial component.

(2) Installation contracts

The Company may enter into installation contracts with customers for the installation of interior materials and similar work. For such contracts, the Company recognizes revenue based on the degree of progress made in satisfying the performance obligation over a specified period of time. Progress is measured by comparing the cost of installation work incurred at the end of the period to the estimated cost of installation work to complete the project. However, for certain transactions with very short installation periods, such revenue is recognized when the performance obligation is fully satisfied. The promised consideration is paid within approximately 6 months from the satisfaction of the performance obligation and does not include a significant financial component.

8. Significant matters forming the basis for preparation of other financial statements

Accounting processing for retirement benefits

The method of accounting for unrecognized actuarial gains and losses and unrecognized past service cost related to retirement benefits differs from the method of accounting for these items in the consolidated financial statements.

Changes in Accounting Policies

(Application of "Accounting Standards for Corporate Tax, Resident Tax, and Business Tax, etc.")

The Company has applied the "Accounting Standards for Corporate Tax, Resident Tax, and Business Tax, etc." (Accounting Standards Board of Japan (ASBJ) Statement No. 27 revised on October 28, 2022; hereinafter the "Revised Accounting Standard of 2022") and other relevant ASBJ regulations from the beginning of the fiscal year. Revisions to categories for recording current income taxes conform to the transitional treatment in the proviso of Paragraph 20-3 of the Revised Accounting Standard of 2022. There is no impact on the financial statements due to this change in accounting policy.

(Application of "Practical Solution on the Accounting for and Disclosure of Current Taxes Related to the Global Minimum Tax Rules, etc.")

The Company has applied the "Practical Solution on the Accounting for and Disclosure of Current Taxes Related to the Global Minimum Tax Rules, etc." (Practical Solution No. 46, March 22, 2024) from the beginning of the fiscal year. There is no impact on the financial statements due to this change in accounting policy.

Changes in presentation

Non-consolidated balance sheet

"Currency swap," which was independently presented in the fiscal year ended March 31, 2024, is included under "Other" in the fiscal year ended March 31, 2025 because it has become insignificant in terms of monetary amount. To reflect this change in presentation, the non-consolidated financial statements for the fiscal year ended March 31, 2024 have been reclassified.
As a result, the 303 million yen presented as "Currency swap" under "Non-current liabilities" in the non-consolidated balance sheets for the fiscal year ended March 31, 2024 has been reclassified to "Other" within "Non-current liabilities."

Non-consolidated balance sheets

*1 Monetary claims and obligations with subsidiaries and associates (excluding those indicated elsewhere)

(Millions of yen)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Short-term monetary claims	1,408	1,510
Short-term monetary obligations	4,525	4,786

*2 Notes maturing at the end of the period, etc.

Regarding accounting processing of notes maturing at the end of the period, settlement is made either on the clearance date or settlement date. As the final day of previous year under review was a bank holiday, the following notes maturing on the final day of the period were included in the balance at the end of the period.

(Millions of yen)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Notes receivable – trade	536	–
Electronically recorded monetary claims - operating	1,792	–

3 Contingent liabilities

(repair work)

The Company conducts repair work for defects that have occurred in some of its merchandise. Although some repair work is performed on behalf of manufacturers, many uncertainties exist in regard to the proportion of repair work carried out, making it difficult to reasonably estimate the total amount to be paid by the Company for repair work.

Non-consolidated statements of income

*1 Transactions with subsidiaries and associates

(Millions of yen)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Amount of operating transactions		
Net sales	3,536	3,645
Purchase amount	11,993	13,035
Transactions from non-operating transactions	800	285

*2 Breakdown of gain on sale of non-current assets

(Millions of yen)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Vehicles	0	0
Tools, furniture and fixtures	0	—
Total	0	0

*3 Breakdown of loss on sale of non-current assets

(Millions of yen)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Vehicles	—	3
Total	—	3

*4 Breakdown of loss on retirement of non-current assets

(Millions of yen)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Buildings	2	3
Machinery and equipment	2	4
Vehicles	0	0
Tools, furniture and fixtures	8	8
Rights fees	1	0
Other	0	—
Total	14	16

*5 Subsidy income

Fiscal year ended March 31, 2024
No items to report

Fiscal year ended March 31, 2025
This is a subsidy related to the FY2023 'Advanced Demonstration Project for Logistics Efficiency Improvement (Advanced Demonstration Project for Logistics Efficiency Improvement for Shippers)'.

*6 Gain on liquidation of subsidiaries and associates

Fiscal year ended March 31, 2024
This follows the completion of the liquidation of our consolidated subsidiary, Sangetsu Goodrich China Co., Ltd.

Fiscal year ended March 31, 2025
No items to report

*7 Loss on valuation of investments in subsidiaries and affiliates

Fiscal year ended March 31, 2024
No items to report

Fiscal year ended March 31, 2025
The loss on valuation of shares of subsidiaries and associates represents a loss pertaining to Goodrich Global Pte. Ltd., one of our consolidated subsidiaries. At the end of the current fiscal year, as the financial performance and financial position of Goodrich Global Pte. Ltd. have significantly deteriorated, resulting in a substantial decline in the intrinsic value of its shares, we have recognized a loss on valuation of shares of subsidiaries and associates based on its intrinsic value, after assessing the possibility of future recovery. Notwithstanding, this loss on valuation of shares of subsidiaries and associates is eliminated in the consolidated financial statements and therefore has no impact on the consolidated financial statements.

Securities

Subsidiary and affiliate company shares

Amount of shares, etc. without market prices recorded on the non-consolidated balance sheets

(Millions of yen)

Title	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
(1) Shares of subsidiaries	12,903	14,664
(2) Shares of affiliate companies	37	37
Total	12,941	14,702

Tax effect accounting

1. Breakdown of deferred tax assets and deferred tax liabilities by cause

(Millions of yen)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Deferred tax assets		
Loss on valuation of goods	381	251
Provision for bonuses	839	869
Allowance for doubtful accounts	34	17
Depreciation	553	591
Loss on valuation of shares of subsidiaries and associates	4,825	5,308
Provision for retirement benefits	1,852	1,912
Investment securities	473	480
Other	1,538	1,499
Subtotal of deferred tax assets	10,498	10,929
Valuation allowance	(5,135)	(5,628)
Total of deferred tax assets	5,363	5,301
Deferred tax liabilities		
Valuation difference on available-for-sale securities	(1,413)	(1,620)
Other	(383)	(333)
Total of deferred tax liabilities	(1,796)	(1,953)
Net deferred tax assets	3,567	3,347

2. When there is a significant difference between the statutory effective tax rate and the effective income tax rate after application of tax-effect accounting, the main components of this difference

(%)

	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Statutory effective tax rate	30.60	Notes have been omitted because the difference between the statutory effective tax rate and the effective income tax rate after application of tax-effect accounting is 5% or less of the statutory effective tax rate.
(Adjustments)		
Entertainment and other expenses that are never tax deductible	0.21	
Income not taxable permanently, such as dividend income	(0.98)	
Per capita inhabitant tax	0.48	
Changes in valuation allowance	0.34	
Tax credits	(2.54)	
Increase in deferred tax assets due to change in tax rates	-	
Other	(0.35)	
Effective income tax rate after application of tax-effect accounting	27.76	27.76

3. Adjustments to the amount of deferred tax assets and deferred tax liabilities due to change in income tax rates

Due to the 'Act for Partial Amendment of the Income Tax Act, etc.' (Act No. 13 of 2025) by the Diet on March 31, 2025, a 'Special Corporate Tax for National Defense' will be imposed starting from business years beginning on or after April 1, 2026. Accordingly, deferred tax assets and deferred tax liabilities related to temporary differences expected to reverse in business years beginning on or after April 1, 2026, have been calculated using a revised effective statutory tax rate of 31.5% (previously 30.6%). The impact of this tax rate change is immaterial.

Business combination

Business combination through acquisition

This information is omitted because the information is the same as that stated in the "Notes to consolidated financial statements (Business combination)"

Revenue recognition

Information providing a basis for understanding revenue from contracts with customers is described in "Notes to non-consolidated financial statements (Significant accounting policies) - 7. Basis for recognizing revenue and expenses."

Significant subsequent events

No items to report

(iv) Supplemental schedules

Schedule of property, plant and equipment

(Millions of yen)

Title	Type of assets	Balance at beginning of period	Increase in the fiscal year under review	Decrease in the fiscal year under review	Amortization in the fiscal year	Balance at end of period	Accumulated depreciation
Property, plant and equipment	Buildings	27,008	366	134	737	27,239	18,912
	Structures	833	4	5	16	832	714
	Machinery and equipment	9,170	385	198	438	9,356	7,173
	Vehicles	472	36	34	61	475	377
	Tools, furniture and fixtures	3,619	265	126	245	3,758	2,993
	Land	13,447	–	127	–	13,320	–
	Leased assets	10	–	5	0	4	2
	Construction in progress	31	16	31	–	16	–
	Total	54,593	1,075	663	1,500	55,005	30,174
Intangible assets	Software	5,706	660	85	372	6,281	4,975
	Other	76	–	–	0	76	6
	Total	5,782	660	85	373	6,357	4,981
Investments and other assets	Investment property	7,908	132	–	70	8,041	3,096
	Total	7,908	132	–	70	8,041	3,096

Notes: Balance at beginning of period and balance at end of period are stated based on acquisition cost.

Schedule of provisions

(Millions of yen)

Item	Balance at beginning of period	Increase in the fiscal year under review	Decrease in the fiscal year under review	Balance at end of period
Allowance for doubtful accounts	112	0	56	56
Provision for product warranties	140	–	27	112
Provision for bonuses	2,743	2,843	2,743	2,843
Provision for bonuses for directors (and other officers)	134	95	134	95

(2) Details of major assets and liabilities

This information is omitted because the Company prepares the consolidated financial statements.

(3) Other

No items to report