



President
He Xian Han

Ferrotec Holdings Corporation (6890)



Company Information

Exchange	TSE Standard Market
Industry	Electric Equipment (Manufacturing)
President	He Xian Han
HQ Address	Nihonbashi Plaza Building, Nihonbashi 2-3-4, Chuo-ku, Tokyo
Year-end	March
Website	https://www.ferrotec.co.jp/en/

Stock Information

Share Price	Shares Outstanding (Term end)	Market Cap.	ROE (Act.)	Trading Unit	
¥2,584	47,018,542 shares	¥121,496 million	7.8%	100 shares	
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (Act.)	PBR (Act.)
¥110.00	4.3%	¥340.29	7.6x	¥5,059.77	0.5x

*Share price as of closing on December 30. Shares outstanding (Excluding Treasury Shares), DPS, EPS, and BPS are taken from the summary of financial results for the second quarter of the fiscal year ending March 2025. ROE is the actual result of the previous term.

Consolidated Earnings Trends

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	DPS (¥)
March 2019 (Act.)	89,478	8,782	8,060	2,845	76.90	24.00
March 2020 (Act.)	81,613	6,012	4,263	1,784	48.12	24.00
March 2021 (Act.)	91,312	9,640	8,227	8,280	222.93	30.00
March 2022 (Act.)	133,821	22,600	25,994	26,659	668.06	50.00
March 2023 (Act.)	210,810	35,042	42,448	29,702	644.81	105.00
March 2024 (Act.)	222,430	24,872	26,537	15,154	322.65	100.00
March 2025 (Est.)	265,000	26,000	26,000	16,000	340.29	110.00

*The forecast is from the company. Unit: million-yen, yen. The dividend for fiscal year ended March 2021 includes a commemorative dividend of 4.00 yen/share. The dividend for fiscal year ended March 2022 includes a special dividend of 9.00 yen/share. Net income is net income attributed to parent shareholders. The same shall apply hereafter.

This Bridge Report reviews the overview of Ferrotec's earnings results of the second quarter of the fiscal year ending March 2025 and full-year earnings estimates for the fiscal year ending March 2025.

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Key Point

- In the cumulative second quarter of the fiscal year ending March 2025, sales grew 28% year on year and operating income rose 9% year on year. In the semiconductor and other equipment-related business, the demand from Chinese manufacturers was strong, and the demand for thermo-electric modules was stronger than assumed in the telecommunication field, so their performance exceeded the forecast (sales of 120 billion yen and an operating income of 13 billion yen) revised upwardly after seeing the results in the first quarter in August 2024. Seeing the results in the second quarter, they have revised the forecast annual sales upwardly.
- As the semiconductor market has been on a recovery track, the performance of the semiconductor and other equipment-related business has been healthy. In particular, they received more orders for vacuum seals and metal processing from manufacturing equipment manufacturers, the sales of machined quartz products recovered, the number of orders for ceramic products from equipment manufacturers recovered, and the start of operation of Changshan Plant contributed. Kulim Factory in Malaysia started operations for metal processing, quartz products, ceramics, and equipment assembly, enabling them to meet the needs of U.S. clients and others for manufacturing outside China, so it can be expected that more clients will approve the products and services in the second half or later. However, there is concern over the significant decline in profitability of quartz crucibles.
- In the electronic device business, thermos-electric modules sold well, thanks to the growth of demand related to generative AI. The sales of substrates for power semiconductors decreased from the previous second half due to the inventory of clients, but the company considers that it is possible to grow sales in the medium or long term. In 2025, Johor Factory in Malaysia is scheduled to start operations. In the automotive related business, thermos-electric modules sold well, as the demand for products for Chinese automobiles was stirred, and the sales of power semiconductor substrates kept growing thanks to the increase of active metal brazing (AMB) substrates for automobiles.
- In the revised forecast for the fiscal year ending March 2025, the company forecasts that sales and operating income will rise 19% and 5%, respectively, year on year. This forecast is based on the premise that the external business environment will be on an upward trend. The demand in the semiconductor industry is expected to pick up gradually from the situation that required device inventory adjustment, which lasted until 2023, and particularly, demand for Graphics Processing Units (GPUs), which are essential for generative AI, and investment in servers are projected to increase in the logic semiconductor field. In addition, prices of memory-related products have recently been on the rise. Therefore, the company keeps expecting that factory operating rate will improve and the level of capital investment will go up from the second half of the fiscal year ending March 2025 onward. In the mobile telecommunication system industry, the company projects that demand for high-capacity optical transceivers for servers will grow significantly while investment in the 5th-generation network will be made continuously, which will drive steady demand in general. In the automobile-related market, demand for electric vehicles (EVs) and self-driving systems is expected to increase on a continuous basis. From the geopolitical perspective, the regulations regarding advanced semiconductor technology that the United States has tightened against China are encouraging semiconductor manufacturers to relocate their manufacturing bases to other countries than China, but demand is expected to grow in Southeast Asian regions, mainly Malaysia, as manufacturing capacity is being increased

there as planned.

- The semiconductor market is gently recovering, but there remain uncertainties over the stock market, because Mr. Trump assumed the presidency. While there are growing uncertainties over some fields, including solar panels and EVs, demand is strong in many fields, including vacuum seals, metal processing, and thermos-electric modules for generative AI. We hope to realize again that Ferrotec Holdings Corporation operates business in a broad range of fields, so it can control its product portfolio according to market conditions. Regarding production sites, not only Changshan Plant in China, but also Kulim Factory in Malaysia started operations, so they can meet a variety of demand from global enterprises. The market is cyclical, but they have carried out upfront investment, so stable growth became more feasible. This is noteworthy.
- From the viewpoint of the portfolio of their corporate group, they are making efforts to enable the diversification of fund procurement through diverse purchase structures. Regarding FTSVA, which is a parts cleaning subsidiary listed in China, it will be possible to circulate funds by selling part of the shares listed on December 30, 2022 from 2026. We would like to pay attention to the diversification of fund procurement and the improvement in share value based on the capital market. The Chinese regulations limit the number of shares a controlling shareholders can sell in a certain period of time, so it is necessary to keep in mind that they must follow the regulations when selling shares.

1. Company Overview

Ferrotec Holdings Corporation develops, manufactures, and sells silicon products, magnetic fluid, sensors, and products to which such items are applied, as well as Vacuum Feedthroughs that are used in equipment for manufacturing semiconductors and flat panel displays (FPDs), quartz products, ceramics products, CVD-SiC products, silicon parts, crucibles, and thermo-electric modules used in temperature controllers.

These products are categorized roughly into either the “semiconductor and other equipment-related businesses,” “the electronic device business,” or “the automotive related business.” The core products and the major companies in each segment are as follows:

Segment	Core products	Major companies	
Semiconductor and other equipment-related businesses	Vacuum Feedthroughs	Development, manufacturing, sale	Ferrotec Material Technologies Corporation Ferrotec (USA) Corporation
		Development, sale	Hangzhou Dahe Thermo-Magnetics Co., Ltd. (FTH) Ferrotec Taiwan CO., LTD. KSM FerroTec Co., Ltd.
		Sale	FERROTEC CORPORATION SINGAPORE PTE LTD
	Quartz products	Development, sale	Hangzhou Dahe Thermo-Magnetics Co., Ltd. (FTH) Ferrotec (Zhejiang) Quartz Technology Co., Ltd. Aliontek Corporation.
		Sale	Ferrotec Material Technologies Corporation Ferrotec (USA) Corporation FERROTEC CORPORATION SINGAPORE PTE LTD Ferrotec Taiwan CO., LTD.
	Ceramics products	Development, manufacturing, sale	Ferrotec Material Technologies Corporation Hangzhou Dahe New Material Technology Co., Ltd. Ferrotec (Zhejiang) Semiconductor Material Technology Co., Ltd.
		Sale	Ferrotec (USA) Corporation FERROTEC CORPORATION SINGAPORE PTE LTD
	CVD-SiC products	Development, manufacturing, sale	Ferrotec Material Technologies Corporation
	Equipment parts cleaners	Development, sale	Ferrotec (Anhui) Technology Development Co., Ltd.
	Silicon parts	Development, sale	Hangzhou Dunyuan Juxin Semiconductor Technology Co., Ltd. (FTHS) Zhejiang Dunyuan Juxin Semiconductor Technology Co., Ltd.
Quartz crucibles	Development, manufacturing, sale	Ningxia Dunyuan Juxin Semiconductor Technology Corporation (FTNC)	

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	Others	Development, sale	Ferrotec (USA) Corporation Ferrotec Europe GmbH Hangzhou Dahe Thermo-Magnetics Co., Ltd. (FTH) Anhui Changjiang Reclaim Semiconductor Material Co., Ltd. Hangzhou Semiconductor Wafer Co., Ltd. (CCMC)
Electronic device business	Thermo-electric modules	Development, sale	Ferrotec Material Technologies Corporation Ferrotec (USA) Corporation Ferrotec Nord Corporation
		Sale	Ferrotec Europe GmbH
		Manufacturing	Hangzhou Dahe Thermo-Magnetics Co., Ltd. (FTH) Shanghai Shenhe Investment Co., Ltd. (FTS)
	Power semiconductor substrates	Development, manufacturing, sale	Jiangsu Ferrotec Semiconductor Technology Co., Ltd. (FLH) Ferrotec (Sichuan) Semiconductor Technology Co., Ltd. (FLHC)
	Magnetic fluid	Development, manufacturing, sale	Ferrotec Material Technologies Corporation Ferrotec (USA) Corporation
		Sale	Shanghai Shenhe Investment Co., Ltd. (FTS) FERROTEC CORPORATION SINGAPORE PTE LTD
Sensors	Development, manufacturing, sale	Ohizumi Mfg. Co., Ltd. Ferrotec (Zhejiang) Sensor Technology Co., Ltd.	
Others		Development, manufacturing, sale	Ferrotec (USA) Corporation Shanghai Shenhe Investment Co., Ltd. (FTS) Shanghai Hanhong Precision Machinery Co., Ltd. Hong Kong First Semiconductor Technology Co., Ltd. Ningxia Shenhe New Material Technology Co., Ltd. MES Ferrotec China Co., Ltd.

(From the company's materials)

Ferrotec was born as a company with highly unique technologies including thermo-electric modules with uses in thermal elements and vacuum technologies that respond to magnetic fluids that were born from the NASA space program in 1980. A wide range of diverse technologies cultivated over more than 40 years were applied in the electronics, automobile, next generation energy, and other industries. As a transnational company, Ferrotec deploys its businesses in Japan, Europe, the Americas, China, and Asia, and involves in marketing, development, manufacturing, sales, and management while taking advantage of the strengths of each country and region. A holding company structure was implemented from April 2017. In April 2022, due to market reorganization, the company got listed on the Standard Market of TSE.

【Business Segments】

Ferrotec's operations includes semiconductor seal related products such as Vacuum Feedthrough, quartz products, ceramic products, etc. used in manufacturing equipment of semiconductor, FPD, LED etc., electronic device business centering on thermo-electric modules, "the automotive related business," which handles mainly thermos-electric modules for in-vehicle systems, substrates for power semiconductors, and sensors, and business segments that are not included in the reportable segments. Other businesses, which handle silicon crystal and solar cell wafers, saw blades, machine tools, surface treatment, industrial washing machines etc.

Semiconductor and other equipment-related business

Ferrotec provides total engineering services in the Equipment Related business segment, including the manufacture and sale of Vacuum Feedthrough of equipment parts for solar power, semiconductor, FPD and LED applications, consumable products used in manufacturing of devices, quartz products, ceramic products, CVD-SiC products, quartz crucibles, silicon wafer processing and equipment cleaning services.

Vacuum Feedthroughs, which are the company's mainstay products, are functional parts that transmit rotational motion to the inside of manufacturing equipment while preventing foreign substances, including gas and dust, from entering the inside of equipment. This Vacuum Feedthrough boasts the top market share in the world. These Vacuum Feedthrough use magnetic fluids (Fluids that respond to magnetic fields), which has been a core technology of Ferrotec since its founding. All of the business fields, however, are easily affected

by capital investment, and the company focuses also on entering general fields with relatively stable demand, including conveyers and precision robots. In addition, Ferrotec has also focused its efforts upon assuming consigned manufacture of vacuum chambers that use Vacuum Feedthrough and gate valves (Both use vacuum related equipment).

At the same time, quartz products, ceramic products, CVD-SiC products, and quartz crucibles are critical elements in the process of semiconductor manufacturing. Quartz products are able to resist high temperature conditions that exist in the semiconductor manufacturing process and are a high purity silica glass product that protects semiconductors from undergoing chemical reaction by preventing it from activating with gas. The Company boasts of semiconductor manufacturing equipment manufacturers as their main clients in Japan and overseas who purchase ceramic products, which are Ferrotec’s core material and technology. At the same time, semiconductor inspection tools for machinable ceramics and fine ceramics used in semiconductor manufacturing equipment are two main products in this CVD-SiC. CVD-SiC products are the term used to describe SiC products manufactured by "CVD method (Chemical Vapor Deposition method)" (created from compounds of silicon and carbon gas). Currently, semiconductor equipment and structural parts are provided, and research and development for products used in aeronautics and space (Turbine, mirrors), automobile (Power semiconductors), energy (Nuclear power related), information technology (Semiconductor manufacturing equipment parts) and other applications are also being conducted. With regard to silicon wafer processing, the company manufactures wafers in sizes of 6 inches (diameter), 8 inches, and 12 inches. It has a large market share accounting for more than half of the manufacturing equipment cleaning market in China.

			
Quartz	Silicon parts	Ceramics	CVD-SiC
			
Vacuum feedthroughs	Metal precision machining	Equipment parts cleaning	Quartz crucibles
<small>*Semiconductor and FPD production equipment parts (Market share: 65% (largest))</small>	<small>*Growth forecast due to increase in future customers (factories) in China</small>	<small>*Focus on the Chinese market</small>	<small>*For semiconductors, solar cells, and Photovoltaic</small>
			
		Wafer recycling	
		<small>*Focus on the Chinese market (New business launched in FY3/22)</small>	
		Businesses at equity-method affiliates	
			
		Silicon wafers	SiC wafers
		<small>*Monthly production capacity: 6-inch: 420 thousand, 8-inch: 450 thousand, 12-inch: 250 thousand</small>	<small>*Development and mass-production (New business launched in FY3/22)</small>

(From the company’s materials)

Electronic Device Business

Thermal element “thermo-electric modules” are products that can instantly raise or lower temperatures to a highly precise degree and are a core product of this business.

Thermo-electric modules are mainly used for automotive temperature control seats and many other purposes, including wafer temperature control in semiconductor manufacturing equipment, genetic testing apparatus, optical communications, home appliances, and other application products such as power semiconductor substrates. The company has the largest share in the global market of thermo-electric modules. By developing new products using high-performance materials and reducing costs and improving quality by adopting automated manufacturing lines, the company is stirring new demand and diversifying purposes of use of its products.

The company has the biggest share in the global market of magnetic fluid, which is increasingly used for such newly developed applications as linear vibration motors for smartphones, speakers for 4K-resolution televisions and automobiles, and high-sound-quality headphones. Furthermore, Ohizumi Mfg. Co., Ltd., one of its consolidated subsidiaries, engages in a business of temperature sensors.

Thermos-electric modules for in-vehicle systems, substrates for power semiconductors, and sensors had been included in the electronic device business, but in the first quarter of the fiscal year ending March 2025, they started including them in **the automotive related business**.

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Thermo-electric modules



*As temperature adjustment devices, thermo-electric modules are increasingly used in the fields of automobiles, semiconductor manufacturing equipment, communications, medical biotechnology, consumer products, etc. (Market share: 36% (largest))



Chiller
A chiller (constant-temperature water circulation equipment) is equipment for circulating liquid, such as water, while cooling or heating it to keep a predetermined temperature. It is used for keeping the temperature of objects, such as heat sources of facilities and equipment, constant.

Insulating substrates for power semiconductors



*In response to the global trend of power consumption reduction, the demand from clients needing power semiconductors is growing. (DIRECT COPPER BONDING technology for bonding a copper circuit to an alumina ceramics substrate)

Application of power semiconductors



Ferrofluid



*Used in a wider range of fields, including automobile speakers, high quality sound TV speakers, and smartphone vibration (Market share: 80% (largest))

Temperature sensors (thermistors) *Ohizumi Mfg.



*Thermistors are semiconductor ceramics that change resistance significantly according to temperature changes. They are broadly used as temperature sensors for automotive devices, home appliances, optical communications, etc. The demand for them is growing thanks to the electrification of vehicles and digitalization.

(From the company's materials)

2. 2Q of Fiscal Year ending March 2025 Earnings Results

[2-1. Consolidated Earnings]

	FY 3/24 2Q	Ratio to sales	FY 3/25 2Q	Ratio to sales	YoY	FY 3/25 (Plan)	Progress rate
Sales	105,494	100.0%	135,157	100.0%	28.1%	265,000	51.0%
Gross Income	34,311	32.5%	38,111	28.2%	11.1%	-	-
SG&A	21,276	20.2%	23,859	17.7%	12.1%	-	-
Operating Income	13,035	12.4%	14,251	10.5%	9.3%	26,000	54.8%
Ordinary Income	15,217	14.4%	15,470	11.4%	1.7%	26,000	59.5%
Net Income	8,390	8.0%	9,190	6.8%	9.5%	16,000	57.4%

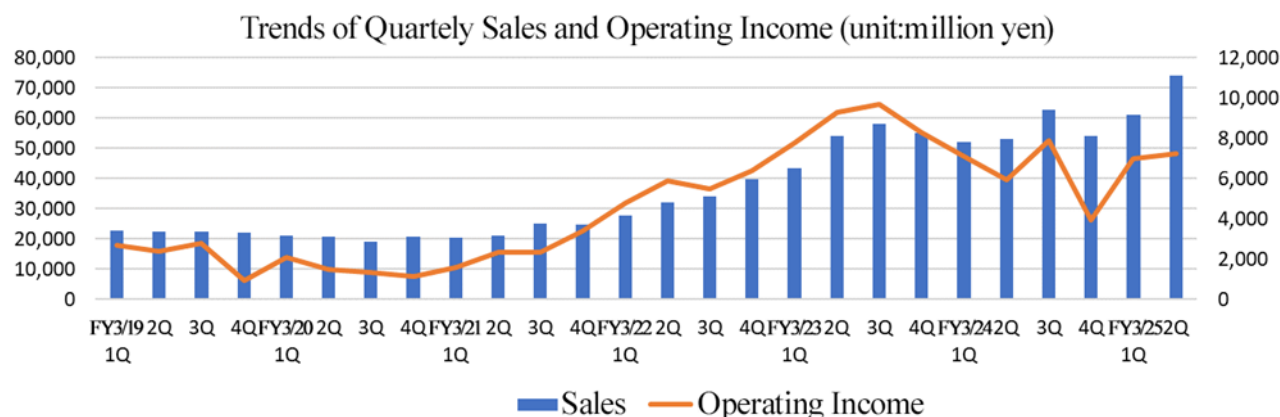
*Unit: million yen.

Performance Exceeding the Initial Forecast of the Company

In the second quarter (2Q) of the fiscal year ending March 2025, they reported a 28.1% year-on-year (YoY) increase in revenue to 135,157 million yen and a 9.3% YoY rise in operating income to 14,251 million yen. The electronics industry as a whole continues to show a steady recovery trend, partially thanks to the strong demand from Chinese local manufacturers. In this environment, the company actively pursued aggressive sales strategies, accurately capturing customer demand, which led to solid revenue growth. Specifically, strong demand from Chinese local manufacturers in the semiconductor manufacturing equipment business and robust demand for thermoelectric modules in the telecommunications sector contributed to sales exceeding the company's initial projections.

In terms of profit, gross profit margin declined 4.3 points year-on-year, primarily due to increased depreciation in new factories and a decline in quartz crucibles' profitability amid the downturn in the solar photovoltaic (PV) market, both of which weighed on overall profitability. While selling, general, and administrative (SG&A) expenses increased due to higher research and labor costs, the impact of revenue growth led to a 2.5-point decrease in the ratio of SG&A to sales, allowing the company to maintain an operating income margin of 10.5%. However, due to equity-method investment losses related to wafers and other factors recorded as non-operating expenses, the increase in ordinary income was limited to 1.7% year-on-year.

The rate of progress toward its initial forecast (sales: 120,000 million yen, operating income: 13,000 million yen, ordinary income: 14,500 million yen, and net income: 8,500 million yen) was 112.6% for sales, 109.6% for operating income, 106.7% for ordinary income, and 108.1% for net income.



In light of its performance in 2Q, the company has upwardly revised its full-year forecast, raising its sales target from 235.0 billion yen to 265.0 billion yen, while keeping the forecasts of all kinds of profits unchanged. This revision reflects both stronger-than-expected sales in the cumulative 2Q and anticipated sales growth in the second half across semiconductor and other equipment-related, electronic devices, and automotive related business. However, the initial forecasts of all kinds of profits remain unchanged, as the company has factored in declining profitability due to the sluggish solar panel market and intensifying competition in the power semiconductor sector. Additionally, the assumed average exchange rate for the U.S. dollar during the period has been revised from 150 yen to 152 yen. The company has also raised its interim dividend per share from 50 yen to 55 yen, and its annual dividend forecast from 100 yen to 110 yen.

【2-2. Business Segment Trends】

Business Segment Sales and Profits

	FY 3/24 2Q	Ratio to sales Profit margin	FY 3/25 2Q	Ratio to sales Profit margin	YoY
Semiconductor and other equipment -related	60,257	57.1%	84,042	62.2%	39.5%
Electronic Device	18,834	17.9%	23,085	17.1%	22.6%
Automotive related	14,006	13.3%	14,304	10.6%	2.1%
Others	12,396	11.8%	13,723	10.2%	10.7%
Consolidated Sales	105,494	100.0%	135,157	100.0%	28.1%
Semiconductor and other equipment -related	7,788	12.9%	8,363	10.0%	7.4%
Electronic Device	3,335	17.7%	3,992	17.3%	19.7%
Automotive related	2,745	19.6%	1,323	9.2%	-51.8%
Others	-179	-	793	5.8%	-
Adjustments	-654	-	-220	-	-
Consolidated Operating Income	13,035	12.4%	14,251	10.5%	9.3%

*Unit: million yen.

In 1Q of FY 3/2025, the company restructured its reporting segments. Specifically, automotive thermo-electric modules, power semiconductor substrates, and sensors, which were previously included in the electronic device business, have been reclassified and are now included in the automotive related business. The figures for 2Q of FY 3/2024 have been retrospectively adjusted to reflect this new segmentation.

(1) Semiconductor and Other Equipment-Related Business

Sales in the semiconductor and other equipment-related business increased 39.5% year-on-year (YoY) to 84,042 million yen, while operating income rose 7.4% YoY to 8,363 million yen. However, profit margin declined 2.9 points to 10.0%. The business maintained strong sales performance, supported by the recovery trend in the semiconductor market. Notably, orders from manufacturing equipment

manufacturers increased for vacuum seals and metal processing, while demand for machined quartz products rebounded. In the ceramics segment, both the recovery of orders from equipment manufacturers and the launch of operations at Changshan Factory contributed to growth. The sales of quartz crucibles surged by 79% YoY, but profitability declined significantly, raising concerns.

Kulim Factory in Malaysia, which handles metal processing, quartz products, ceramics, and equipment assembly, has commenced operations, enabling the company to meet the growing demand from U.S. and other customers for production outside China. More customers are expected to approve their products or services in the second half of the fiscal year.

(2) Electronic Device Business

The sales in the electronic device business increased 22.6% year-on-year (YoY) to 23,085 million yen, while operating income rose 19.7% YoY to 3,992 million yen. However, profit margin declined 0.4 points to 17.3%. Additionally, the consolidated subsidiary Ohizumi Manufacturing (categorized under sensors) recorded a nine-month financial period due to a fiscal year change, with only three months included in the current results. Strong demand driven by generative AI applications boosted sales of thermo-electric modules, while power semiconductor substrates saw a revenue decline from the previous half-year, primarily due to customer inventory adjustments. However, the company expects continued long-term growth in this segment. Furthermore, Johor Plant in Malaysia is scheduled to begin operations in 2025.

(3) Automotive Related Business

Sales in the automotive related business (including thermo-electric modules, power semiconductor substrates, and sensors) increased 2.1% year-on-year (YoY) to 14,304 million yen, while operating income declined sharply 51.8% YoY to 1,323 million yen. As with the electronic device business, the consolidated subsidiary Ohizumi Manufacturing recorded a nine-month financial period due to a fiscal year change, with only three months included in the current results, which should be noted. Thermo-electric module sales surged 73% YoY, driven by expanding demand in the Chinese automotive market, while power semiconductor substrates saw a 9% YoY increase, supported by the growth of AMB substrates for automotive applications.

(4) Other Businesses

Sales in the other business segment, which includes saw blades, machine tools, and silicon products for solar cells, increased 10.7% year-on-year (YoY) to 13,723 million yen, while operating income turned positive, reaching 793 million yen. Although shipments of silicon products for solar cells continued to decline, shipments of machine tools and commercial laundry equipment showed signs of recovery.

【2-3. Financial Condition】

◎Financial Condition

	Mar, 24	Sep, 24	Increase Decrease		Mar, 24	Sep, 24	Increase Decrease
Current Assets	248,408	289,842	+41,434	Current liabilities	122,148	142,651	+20,503
Cash	117,254	120,196	+2,942	Payable	38,334	49,747	+11,413
Receivable	61,940	89,046	+27,106	ST Interest-Bearing	47,476	50,528	+3,052
Inventory	56,909	68,457	+11,548	Noncurrent liabilities	109,712	125,558	+15,846
Noncurrent Assets	261,618	302,947	+41,329	LT Interest-Bearing	87,684	101,462	+13,778
Tangible Assets	201,339	239,137	+37,798	Total Liabilities	231,860	268,209	+36,349
Intangible Assets	6,611	7,016	+405	Net Assets	278,166	324,580	+46,414
Investments and Other Assets	53,666	56,794	+3,128	Retained earnings	79,881	86,721	+6,840
Total Asset	510,026	592,790	+82,764	Total Assets	510,026	592,790	+82,764

*Unit: million yen.

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Total assets increased to 592,790 million yen, up 82,764 million yen from the end of the previous fiscal year. The main factors behind this increase were an increase in accounts receivable and contract assets due to sales increase and an increase in tangible fixed assets due to continued active investment in each business. Current assets grew due to an increase in notes and accounts receivable-trade and inventories in line with sales growth, as well as fundraising.

Total liabilities augmented 36,349 million yen year on year to 268,209 million yen. The main factors behind this increase were an increase in accounts payable and long-term borrowings.

Net assets rose 46,414 million yen year on year to 324,580 million yen due to the 6,840 million yen increase in retained earnings, the 27,233 million yen increase in foreign currency translation adjustments, and the 12,921 million yen increase in noncontrolling shareholders' equity.

◎Cash Flow

	FY 3/24 2Q	FY 3/24 2Q	Increase Decrease
Operating cash flow	+6,789	+4,151	-2,638
Investing cash flow	-29,101	-17,736	+11,365
Free Cash Flow	-22,312	-13,585	+8,727
Financing cash flow	+41,659	+12,169	-29,490
Cash and Equivalents at the end of term	119,666	104,368	-15,298

*Unit: million yen.

As of the end of the interim period of FY 3/2025, the balance of cash and cash equivalents stood at 104,368 million yen, representing a year-on-year decrease of 15,298 million yen. The company continues to pursue proactive investments for future growth, with capital expenditures for tangible fixed assets amounting to 22,781 million yen, (33,235 million yen in the same period last year.) To secure funding, the company utilized a pre-tax interim net profit of 15,475 million yen, depreciation expenses of 11,241 million yen, and proceeds from long-term borrowings totaling 20,031 million yen.

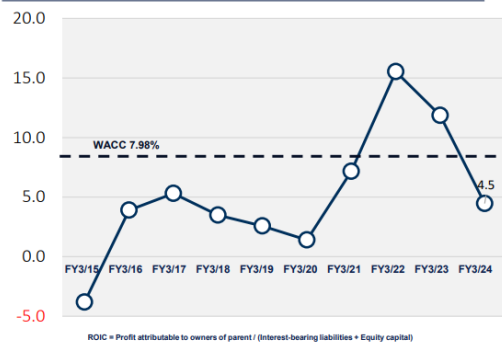
In July 2024, the company disclosed its initiative on "Efforts to Achieve Management Conscious of Capital Costs and Stock Price." As part of this, it calculated its capital cost at 8.62% (WACC: 8.62%) and identified that the primary reason for its PBR (Price-to-Book Ratio) falling below 1 is that its ROE (Return on Equity) is below this capital cost. The company is currently implementing various measures to achieve an ROE of 15%. Additionally, the company has announced dividend increases and share buybacks for FY 3/2025, targeting a total shareholder return ratio of 30%. With a strong focus on capital allocation efficiency, the company's future strategies and developments will remain a key area of interest.

Initiatives for Realizing Business Administration Conscious of Capital Cost and Share Price

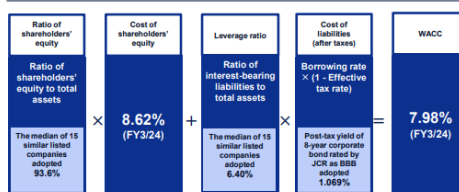


- The ratio of capital cost of our company calculated at the end of July 2024 was 8.62%. The ROE as of the end of the previous fiscal year fell below it, and PBR is less than 1.
- By achieving ROE of 15% as a medium-term goal early, we aim to realize corporate value exceeding capital cost.

Variation in ROIC (in the past 10 fiscal years; unit: %)



Weighted average cost of capital (WACC)



Policy for evaluating and improving the current situation

Evaluation of the current situation

- In FY3/24, the value was 4.5%, much lower than WACC (7.8% in FY3/24). Namely, EVA spread is negative.
- In the past 10 fiscal years, it exceeded WACC only in two fiscal years (FY3/22 and FY3/23). Accordingly, it is considered imperative to improve ROIC.

Policy for improvement

- To thoroughly manage ROIC in each business and each subsidiary and further strengthen investment judgment and control according to ROIC
- To improve ROIC by reviewing the business portfolio, engaging in selection and concentration of businesses, and restructuring the organization of our corporate group (sale of businesses or a portion of equity, exclusion of some subsidiaries from the scope of consolidation, and so on)
- By implementing the above measures, we will improve ROIC while conducting investment for business growth. We aim to achieve an ROIC of 8.0% in FY3/27 (KPIs set in the Mid-Term Management Plan).

(From the company's materials)

3. Fiscal Year ending March 2025 Earnings Forecasts

【3-1. Full Year Consolidated Earnings】

	FY 3/24	Ratio to sales	FY 3/25 (Initial plan)	Ratio to sales	FY 3/25 (Revised plan)	Ratio to sales	YoY
Sales	222,430	100.0%	235,000	100.0%	265,000	100.0%	+19.1%
Operating Income	24,872	11.2%	26,000	11.1%	26,000	9.8%	+4.5%
Ordinary Income	26,537	11.9%	26,000	11.1%	26,000	9.8%	-2.0%
Net Income	15,154	6.8%	16,000	6.8%	16,000	6.0%	+5.6%

*Unit: million yen

It is assumed that overall business performance will be on an upward trend.

The company forecasts that sales will be 265 billion yen (up 19.1% year on year) and operating income will stand at 26 billion yen (up 4.5% year on year) in the full fiscal year ending March 2025. At the time of the disclosure for 1Q of FY 3/2025, the company's forecast for the cumulative 2Q was revised upwardly, with forecast sales increased by 10 billion yen, operating income by 500 million yen, and ordinary income by 2 billion yen. However, the full-year forecast remained unchanged from the initial forecast. Following the release of the results in 2Q, the full-year forecast has been raised. Regarding all kinds of profits, the company has maintained its previous projections, taking into account concerns over declining profitability in quartz crucibles for solar panels, increased costs associated with new factory start-ups, and intensifying competition in the power semiconductor substrate market.

Meanwhile, the overall assumption remains unchanged that the external environment continues to follow a recovery trend. The demand in the semiconductor industry is expected to pick up gradually from the situation that required device inventory adjustment, which lasted until 2023. Particularly, demand for Graphics Processing Units (GPUs), which are essential for generative AI, and investment in servers are projected to increase in the logic semiconductor field. In addition, prices of memory-related products have recently been on the rise. Therefore, the company expects that factory operating rate will improve and the level of capital investment will go up from the second half of the fiscal year ending March 2025 onward. In the mobile telecommunication system industry, the company projects that demand for high-capacity optical transceivers for servers will grow significantly while investment in the 5th- generation network will be made continuously, which will drive steady demand in general. In the automobile-related market, demand for EVs and self-driving systems is expected to increase on a continuous basis. From the geopolitical perspective, the regulations regarding advanced semiconductor technology that the United States has tightened against China are encouraging semiconductor manufacturers to relocate their manufacturing bases to other countries than China, so they are expanding their manufacturing capacity in Southeast Asian regions in order to relocate their bases to the regions. Demand is expected to grow there in the future. With regard to procurement of raw materials, the company has taken into account some adverse impacts, such as pressure on procurement due to soaring material prices and logistics disruption caused by Russia's invasion of Ukraine, to a certain extent. The expected exchange rates are 152 yen (changed from 150 yen) for a U.S. dollar and 21 yen for a Chinese yuan.

The reason why ordinary income will decline from the previous fiscal year is that the company will not record a gain on foreign exchange as it did in the previous fiscal year (1,383 million yen).

4. New Mid-Term Management Plan (Reposted)

【4-1 Basic policies of the new mid-term management plan】

The basic policies of the new mid-term management plan with the aforementioned points taken into account are as follows:

Business growth	<ul style="list-style-type: none"> ➤ Pursue growth of businesses related to semiconductors and automobiles, and expand the businesses that have a large share in the industries. ➤ Enhance a system in which the plants in Malaysia and Japan accommodate demand for products manufactured in countries other than China and the plants in China handle demand for products manufactured in China.
Enhancement of production efficiency and competitiveness	<ul style="list-style-type: none"> ➤ Pursue enhancement of production efficiency and competitiveness of the plants by propelling forward digitization and automation in order to further increase the company's mass production capacity. ➤ Continue thorough quality control based on a belief that "quality is our priority," enhance the research and development system, and propel forward development of new products and technologies.
Enhancement	<ul style="list-style-type: none"> ➤ Proceed with recruitment of highly skilled human resources, enrichment of training and education programs,

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of human resources and corporate culture	<p>and adoption of share-based compensation plans (restricted share units (RSUs) and performance share units (PSUs)) while considering it as an important business strategy to attach focus on human resources.</p> <ul style="list-style-type: none"> ➤ Instill the guidelines for action, which are “respect our customers, respect our employees, respect diligence and reliability, steadily take action, and pursue innovation,” because corporate culture is the base for a company.
Financial and shareholder returns	<ul style="list-style-type: none"> ➤ Strive to increase revenues by establishing new plants and allowing them to contribute to business performance as swiftly as possible. ➤ Give attention to increasing shareholder returns and endeavor to raise shareholder returns with an eye on a dividend payout ratio of 20-30%.

*Produced by Investment Bridge Co., Ltd. with reference to disclosed material.

【4-2 Numerical Targets of Mid-term Management Plan】

(million yen)	Mid-term management plan (FY 3/25 – FY 3/27)			
	FY 3/24 (Act.)	FY 3/25 (Est.)	FY 3/26 (Est.)	FY 3/27 (Est.)
Sales	222,431	235,000	300,000	380,000
Operating income	24,873	26,000	40,000	60,000
Operating income margin	11.2%	11.1%	13.3%	15.8%
Net income	14,953	16,000	22,000	30,000
ROE	7.7%			15.0%
ROIC	4.4%			8.0%
Shareholder's equity ratio	40%	40%		
Investment amount	75,227	60,000	40,000	40,000
Dividend per share (yen)	100.0	100.0	Ferrotec Holdings sets its eye on a payout ratio of 20% - 30%.	

*ROIC = Net income attributable to owners of the parent / (interest-bearing liabilities + net assets); Net assets do not include share acquisition rights or non-controlling shareholders' equity.

*The investment amount is a sum of tangible fixed assets, intangible fixed assets, securities to be acquired, and any other relevant factors. It varies depending on investment opportunities for mergers and acquisitions.

(Produced by Investment Bridge Co., Ltd. with reference to disclosed material.)

Regarding the compound annual growth rate (CAGR) for the three fiscal years starting in the fiscal year ended March 2024, the company forecasts that sales will grow 19.5% and operating income will rise 34.1%. While the semiconductor market declined in 2023, it rallied in 2024 and the market scale in 2030 is expected to be 1.7 times larger than that in 2024. Manufacturing equipment-related demand is projected to get on an upward trend in 2024. The company believes that the Chinese market can boom for a certain extent while the semiconductor trade friction between the United States and China still has an impact.

Ferrotec Holdings plans to make a capital investment of a cumulative total of 140 billion yen for the three fiscal years. In addition, the estimated amount of mergers and acquisitions is 10 billion yen although it may change depending on investment opportunities. It is based on the fact that the company has received requests from semiconductor-related clients to increase its capacity from 2025 onward, strengthening of manufacturing systems in other countries than China, and continued investment in the automobile segment, including power semiconductor substrates. The company expects that it will improve free cash flow by steadily increasing cash flow from operating activities.

【4-3 Results and Targets by Category】

(million yen)	FY 3/23 (Act.)	FY 3/24 (Act.)	FY 3/25 (Est.)	Plan for FY 3/26	Plan for FY 3/27
Quartz products	28,837	28,242	28,849	35,000	40,000
Ceramics	27,194	24,314	23,913	36,000	44,000
CVD-SiC	4,812	6,837	7,555	11,000	15,000
Silicon parts	17,542	14,604	14,333	20,000	25,000
Thermo-electric modules	23,226	22,893	24,015	29,000	39,000

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Power semiconductors	20,010	32,527	35,411	44,000	66,000
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(Produced by Investment Bridge Co., Ltd. with reference to disclosed material.)

<Quartz>

In the fiscal year ended March 2024, sales of quartz products shrank only 2.0% year on year because the company endeavored to make recovery from the adverse impact of the downturn in the semiconductor market by taking advantage of the booming Chinese market. While it is projected that sales in the fiscal year ending March 2025 will be almost at the same level because users are expected to use up their stocks, the company believes that sales will fully get on the rise after the fiscal year ending March 2026. Accordingly, it intends to increase its manufacturing capacity in Malaysia and Kumamoto Prefecture in Japan (with an amount to be invested being over 20 billion yen). It will deal with needs of European and American clients for products manufactured in other countries than China at its Malaysian plant.

<Ceramics>

The Chinese market boomed, but sales dropped 10.6% year on year in the fiscal year ended March 2024 due to the downturn in the semiconductor market. The company continued proactive investment in increasing its manufacturing capacity through such measures as establishment of new plants in Changshan in China, Ishikawa Prefecture in Japan, and Malaysia. Regarding the future outlook, the company projects that this segment will fully get on an upward trend after the fiscal year ending March 2026 while taking into account the impact of users' plans to use up their stocks as in the quartz segment.

<CVD-SiC>

Demand for CVD-SiC was strong, allowing sales to grow 42.1% year on year in the fiscal year ended March 2024. With demand by semiconductor-related clients is expected to grow on a continuous basis, the company will strive to increase the manufacturing capacity by enhancing plants in Changshan in China and Okayama Prefecture in Japan.

<Silicon parts>

The company is increasing its manufacturing capacity through such measures as establishment of a new plant in Changshan in China because demand is expected to grow in the medium term. It, however, considers it difficult to raise sales in the fiscal year ending March 2025 owing to the potential impact of changes in the market value of inventory.

<Thermo-electric modules>

Sales shrank only 1.6% year on year in the fiscal year ended March 2024. The principal reasons are that sales of thermo-electric modules for bio equipment, such as PCR equipment, peaked out and manufacturing of thermo-electric modules for 5th-generation (5G) telecommunication equipment has reached a phase of adjustment. Optical transceivers related to generative AI grew in sales. From now on, it is expected that demand for generative AI-related thermo-electric modules will become strong and that for thermo-electric modules for 5th-generation telecommunication equipment will get on an upward trend. In addition, the company has a high hope for increases in investment by China in the 5G-Advance technology and demand for it.

<Power semiconductors>

In the second half of the fiscal year ended March 2024, the company needed to adjust manufacturing of power semiconductors, but medium-term demand continues to be on an upward trend. It intends to make proactive investment in increasing its capacity on a continuous basis. Believing that demand for power semiconductor substrates will continue to grow in the medium term, the company plans to broaden its product range of DCB, AMB, and DPC.

【4-4 Details of major plants newly established and increases in principal manufacturing capacities】

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Business	Location	2023	2024	2025	2026	2027	2028	Assumed production capacity (100 million yen)
Power semiconductor substrates	Dongtai and Neijiang, China	Start of operation	Small-lot production	Full-scale operation				680
Power semiconductor substrates	Malaysia	Start of operation		Small-lot production	Full-scale operation			150
Ceramics	Ishikawa, Japan	Start of operation	Small-lot production	Full-scale operation				140
Ceramics Silicon parts	Changshan, China	Start of operation	Small-lot production	Full-scale operation				150
Quartz crucibles	Yinchuan, China	Start of operation	Small-lot production	Full-scale operation				340
Metal processing, quartz, ceramics	Malaysia	Start of operation		Small-lot production	Full-scale operation			250
Material, parts cleaning	Kumamoto, Japan	Start of operation		Small-lot production	Full-scale operation			70

(From the company's materials)

◎Shareholder Return

Focusing on increasing shareholder returns, the company will set its eye on a dividend payout ratio of 20-30% for the time being. Accordingly, a dividend is to be 110 yen per share (with a payout ratio being 29.4%) in the fiscal year ending March 2025.

◎ Long-term goals

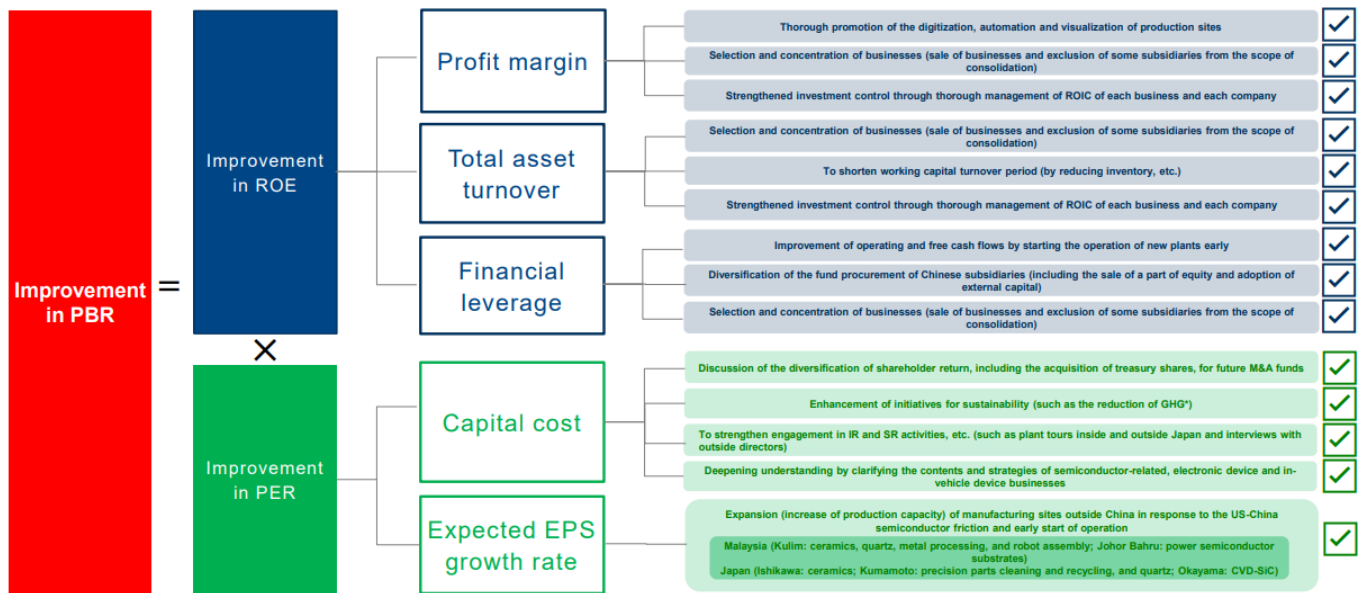
The company has not revised its numerical goals set in the long-term vision, that is, sales of 500 billion yen and a net income of 50 billion yen in fiscal year ending March 2031.

5. Measures for Achieving Management Conscious of Capital Costs and Stock Price

On July 31, the company disclosed its initiative on "Measures for Achieving Management Conscious of Capital Costs and Stock Price." This section outlines the key points of that disclosure.

The company has defined its shareholder equity cost at 8.62% for FY 3/2024, calculated using the Capital Asset Pricing Model (CAPM). The assumptions for this calculation include a risk-free rate of 1.735% (20-year government bond yield), a β of 1.043 (for the semiconductor manufacturing equipment industry), and an equity risk premium of 6.60%. The company's ROE for FY 3/2024 was 7.8%, falling below its shareholder equity cost, which is considered as the primary reason for its PBR (Price-to-Book Ratio) remaining below 1. Recognizing the urgent need to enhance profitability above its shareholder equity cost, the company has set a target of achieving an ROE of 15%. To reach this goal, it plans to drive business and profit growth, strengthen profitability, implement effective ROIC management, focus on business selection and concentration to improve total asset turnover, and optimize financial leverage. Additionally, the company aims to improve its PER (Price-to-Earnings Ratio) through enhanced shareholder return policies and the further strengthening of non-financial strategies. The specific initiatives to achieve these goals are outlined below.

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*GHG stands for greenhouse gas, mainly CO₂.

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(From the company's materials)

As achieving the medium-term management plan is essential to meeting these targets, the company has also announced a transition to a performance-linked compensation system, which strengthens both short-term and medium-to-long-term incentives, further aligning executive remuneration with business performance.

6. Conclusions

The semiconductor market is gently recovering, but there remain uncertainties over the stock market, because Mr. Trump assumed the presidency. While there are growing uncertainties over some fields, including solar panels and EVs, demand is strong in many fields, including vacuum seals, metal processing, and thermos-electric modules for generative AI. We hope to realize again that Ferrotec Holdings Corporation operates business in a broad range of fields, so it can control its product portfolio according to market conditions. Regarding production sites, not only Changshan Plant in China, but also Kulim Factory in Malaysia started operations, so they can meet a variety of demand from global enterprises. The market is cyclical, but they have carried out upfront investment, so stable growth became more feasible. This is noteworthy.

From the viewpoint of the portfolio of their corporate group, they are making efforts to enable the diversification of fund procurement through diverse purchase structures. Regarding FTSVA, which is a parts cleaning subsidiary listed in China, it will be possible to circulate funds by selling some shares listed on December 30, 2022 from 2026. We would like to pay attention to the diversification of fund procurement and the improvement in share value based on the capital market. The Chinese regulations limit the number of shares a controlling shareholders can sell in a certain period of time, so it is necessary to keep in mind that they must follow the regulations when selling shares.

<Reference: Regarding Corporate Governance>

◎ Organization type, and the composition of directors and auditors

Organization type	Company with auditors
Directors	9 directors, including outside ones 3
Auditors	3 auditors, including outside ones 2

◎ Corporate Governance Report (Updated on August 6, 2024)

Basic policy

While pursuing our corporate principles: “Strong commitment to our customers,” “Excellence in engineering precision solutions,” and “Delivering superior quality, value and service,” our corporate group has drawn up a code of conduct as follows: From a global perspective, Ferrotec always operates in harmony with the international community and acts in good faith with unwavering corporate ethics and social decency, as well as in compliance with the laws of each country as a company that provides products and services that contribute to everyday life of the people all over the world who are related to us; Ferrotec earns customer trust and satisfies our customers by proposing high-quality products and services and providing cost-competitive products and services mainly in the new energy and electronics industries; Considering proactive eco-friendly activities to be one of our high-profile business issues, Ferrotec contributes to solving global environmental problems by adapting ourselves to the requirements of the latest environmental regulations one by one and developing materials and products that can be used in the new energy industry; and Ferrotec contributes to society through manufacturing based on our core technology, continues to be a company whose stakeholders, including customers, shareholders, employees, business partners, and local communities, are looking forward to seeing it grow, and engages in business activities based on social decency, such as laws, social order, and international rules.

Our company not only proactively promotes environmental preservation activities and our corporate group’s governance pursuant to the aforementioned corporate principles and code of conduct, but also strives to continue being a company whose stakeholders look forward to its growth. We have also formulated a quality philosophy saying that we focus on developing new materials and production technologies, such as semiconductor materials, and pursue customer satisfaction improvement by giving top priority to quality, and are moving forward with automation, digitalization, and standardization of our production processes. Our basic business policies are to increase our share in the global market and form a corporate group with a stable profit structure.

Based on the above corporate principles, code of conduct, and basic management policy, the company considers that it is important to improve its corporate value, emphasize the soundness of its business administration to become an enterprise that will be trusted and supported by stakeholders, including shareholders, customers, business partners, and local communities, and also establish a managerial system responding the rapid changes to the business environment swiftly and accurately.

<Main Reasons for Non-compliance with the Principles of the Corporate Governance Code>

<Supplementary Principle 1-1-1: Analysis of Reasons Behind a Considerable Number of Opposing Votes at a General Shareholders’ Meeting> While our company has not set the criterion for a “considerable number” in case a considerable number of opposing votes was cast at a general shareholders’ meeting, we shall consider defining the criterion from now on. In case a considerable number of opposing votes was cast, we shall swiftly analyze the reasons behind the opposition and the cause for the increase of opposing votes and present our view of the issue, such as making a press release of the analysis results.

<Supplementary Principle 1-2-3: Appropriate Setting of Dates for General Shareholders’ Meetings and Associated Events> Viewing constructive dialogue with all shareholders as important, we endeavor to disclose and send notices of convocation of general shareholders’ meetings at an early point and organize these meetings to avoid holding them on the same days as such meetings held by other companies. However, as a result of taking into account the dates for producing statutory documents, the fact that we wish to proceed with administrative work for the settlement of accounts while securing sufficient time for a high-quality audit, the period for convocation procedures and the venue’s availability, the latest four meetings were inevitably held on days on which such meetings are usually held. We shall keep considering dates for these meetings to avoid holding them on the same days as such meetings held by other companies while taking into consideration the aforementioned points.

<Principle 1-7: Transactions Among Parties Concerned> In case our company is to engage in transactions among parties concerned, deliberation and resolution by the Board of Directors in accordance with the Board of Directors regulations and authority rules in addition to laws and regulations are deemed necessary, and directors with interests in the relevant transaction may not participate in passing the resolution. Transactions among parties concerned are based on the same conditions as transactions among companies with no capital ties, and we make sure that these transactions are not detrimental to the interests of minority shareholders in terms of their propriety. Every transaction among concerned parties is explained in writing at a Board of Directors' meeting before the transaction is performed, entailing the amount of the transaction, the propriety and reasonableness of transaction conditions and pros and cons of engaging in the transaction. Only transactions judged to be appropriate following a discussion are approved. Moreover, in case of long-term contracts, continuous transactions, etc., we make sure to pass a resolution by the Board of Directors concerning the amount of the transaction, the propriety and reasonableness of transaction conditions and pros and cons of engaging in the transaction at least once a year. On the other hand, as the in-house rules do not clearly mention a prompt report to the Board of Directors after the relevant transaction, the post-transaction report is forgotten at times. We shall revise the in-house rules or formulate new management rules that clearly state not only approval before the transaction is performed, but also the obligation of a post-transaction report, and work on spreading this knowledge, striving to implement reasonable procedures concerning transactions among concerned parties free of any omission.

<Supplementary Principle 2-4-1: Ensuring diversity in promotion to core human resources>

As a basic policy for human capital, the group operates under two major policies regarding organizations and human resources. The first is to create a company and organization, in which each employee, regardless of their attributes, can act autonomously and with ambition and have a sense of fulfillment in their work. The second is to localize management, make decisions quickly, and manage the business and the organization according to the characteristics of each region.

While our business is expanding on a global basis, our corporate group drastically strengthens our human resources and organization and proactively employs women, foreign nationals, and mid-career workers with extensive skills and experience to raise our corporate value in the medium/long term. In addition, we actively promote women, foreign nationals, and mid-career hires to managerial positions by comprehensively considering and evaluating such factors as their skills and valuable experience cultivated in companies outside of our corporate group.

We, however, have not disclosed our medium- and long-term policies on promoting women, foreign nationals, and mid-career hires to managerial positions and ensuring diversity, policies on human resources development, policies on internal environment development, and our progress and achievement in this regard.

In the future, in order to contribute to the medium/long-term enhancement of corporate value in line with the expansion of the global corporate scale, the company will proactively have discussions to set policies for personnel development and the internal environment and disclose the progress of them, under its basic policy on human capital.

<Supplementary Principle 3-1-3: Disclosure of initiatives on sustainability and business strategies, such as investment in human capital and intellectual property>

Following our corporate principles: "Strong commitment to our customers, excellence in engineering precision solutions, and delivering superior quality, value and service," our company has framed a basic policy on materiality and sustainability in 2021 because we consider ESG (Environment, Social, and Governance) to be extremely important for medium- and long-term improvement of our corporate value. We will build an organizational structure, enlighten our employees, and set quantitative goals for promoting ESG. Regarding investment in human capital and intellectual property, our Japanese subsidiaries proactively promote young employees to the position of executive officer and flatten their organizations. Meanwhile, our Chinese subsidiaries actively invest in intellectual property by, as necessary, founding research institutes related to semiconductors, employ a greater number of human resources who have degrees equivalent to doctor's degrees, and granting their employees awards and rewards for superb patent applications. We will monitor quantitative goals that we set and announce our progress with them via our website, IR material, and other means.

<Supplementary Principle 4-12-1: Stimulation of Deliberation at Board of Directors' Meetings> At our company, materials for the Board of Directors meetings are distributed beforehand (two days before the meeting) by e-mail, etc., and a preliminary briefing is held on the day before or on the day of the meeting. Matters to be reported or brought up for discussion to the Board of Directors are presented at the Executive Officers' meeting (held at the end of every month), which functions as a management meeting, and shared with participating directors and auditors. A report of the Executive Officers' meeting is distributed to directors and auditors who did not attend this meeting. Regarding the schedule of Board of Directors' meetings, Executive Officer meetings, etc., we distribute a meeting calendar

every year, scheduling the Board of Directors' meeting on financial results, etc. beforehand. As a truly substantial number of items is raised for deliberation, directors including external directors are requesting us to secure a preparation period for the deliberation by distributing materials for the Board of Directors' meetings earlier than two days before the meeting and revise the scope of items brought up for a resolution or report. Regarding additional questions concerning the materials for passing a resolution, the awareness and system for reporting at our company, including the swift collection of information by the responsible person in each department, have been acknowledged by external directors. Resolutions in writing in accordance with Article 370 of the Companies Act are performed as required. As it has been pointed out that the time for deliberating on each matter is insufficient, we recognize it as a challenge that calls for improvement.

<Supplementary Principle 4-14-2: Policy Concerning the Training of Directors and Auditors> Our basic policy lies in explaining the general role and duties of directors and auditors as well as the details of our business, financial affairs, organization, etc. to directors and auditors when they are appointed. Furthermore, we arrange their attendance at important meetings, such as the Executive Officers' meetings, management strategy meetings and global meetings, as well as inspections of manufacturing sites to deepen their understanding of our company. Moreover, directors and auditors respectively attend external seminars in addition to the training in accordance with our basic policy. From now on, we shall stipulate the policy on this training for directors and auditors and disclose it on our website, etc.

<Main Disclosure Based on the Principles of the Corporate Governance Code>

<Principle 1-1: Securing the Rights of Shareholders> While making sure that the rights of shareholders, such as the voting right at general shareholders' meetings, are rightly secured, we arrange the system for fulfilling the role and duties concerning corporate governance. Moreover, we are sufficiently considerate in order to secure the equality of rights of minority shareholders, such as organizing briefing sessions after general shareholders' meetings and securing opportunities and points of contact for dialogue, for example, individual phone calls handled by the IR and PR department.

<Principle 1-3: Basic Policy for Capital Strategy> [Basic philosophy] We believe that sustainable growth is necessary for elevating our stock value in the medium to long term. In order to achieve it, we aim to elevate profitability and maximize our capability to generate cash, which will lead to the maximization of stock value, while thoroughly pursuing business and profit growth. Moreover, we make it a policy to strive for enriching shareholder return while securing the balance between investments toward growth in the medium to long term, and capital efficiency and financial soundness.

<Principle 1-4, Supplementary Principle 1-4-1, Supplementary Principle 1-4-2: Strategically Held Shares> We define and operate the policy regarding strategically held shares and the criteria for exercising the voting rights stemming from strategically held shares as follows.

1. Our policy regarding strategic shareholding

Our basic policy lies in holding no shares strategically. However, we hold the shares of other companies only in cases where we judged that it is highly reasonable to hold the relevant shares in terms of the relationship with the issuing company, such as shares of our business partners. The president's office regularly inspects the reasonableness of holding these shares and presents the findings to the Board of Directors. Regarding the concrete inspection method, the Board of Directors inspects whether the objective for holding the shares is appropriate or not, whether the benefits and risks stemming from holding the shares correspond with the capital cost, etc., and forges ahead with reducing strategically held shares based on the inspection results. On a Board of Directors' meeting held in June 2024, we decided to conditionally hold the shares of one company and keep holding the shares of five companies as a result of a careful examination.

2. Our criteria for exercising the voting rights stemming from strategically held shares

With regard to exercising voting rights, we respect the judgment of the Board of Directors of the company that issued the relevant shares as a general rule, and make affirmative judgments in voting unless the matter in question negatively impacts the relationship and transactions with our corporate group, or it can be surmised that it will clearly degrade common interests of shareholders.

3. Response to strategically held shares of our company

Apart from the aforementioned, in case a company that strategically holds our shares expresses the intention to sell these shares, we respond appropriately to the sale, etc., without making any obstructions to the sale, such as implying a reduction in transactions.

<Principle 1-5: The So-Called Anti-Takeover Measures> We have not adopted any so-called anti-takeover measures at our company. In case our shares are offered in a takeover bid, our Board of Directors carefully examines its objective and content, and announces our company's opinion. In case the Board of Directors judges that it is necessary from the viewpoint of maintaining and elevating corporate value, we suggest appropriate measures while taking care so as not to unjustly hinder the right of the shareholder to accept the takeover bid.

<Principle 1-6: Capital Policy that May Harm Shareholder Interests> With regard to drafting and implementing the capital policy, our Board of Directors passes the resolution following a sufficient consideration of the necessity and reasonableness so as not to unjustly harm existing shareholders.

<Principle 2-1: Formulation of Management Philosophy as the Foundation for Elevating Corporate Value in the Medium to Long Term> We engage in business activities in accordance with the three pillars of our management philosophy, which are "being trusted by customers and gaining their satisfaction," "contributing to resolving global climate issues" and "contributing to the society through craftsmanship," in order to pursue harmony between the global society and local societies from a global standpoint and act in a sincere way as a company offering products and services that can contribute to the lives of all kinds of people.

<Principle 2-2: Formulation and Implementation of Regulations for Corporate Conduct> In order to realize our management philosophy, we have expressed our values as a company and defined the following code of conduct as regulations to be complied with by the company members.

1. "As a company that constantly pursues harmony with the global society and offers products and services that can contribute to the lives of people in local societies and other worlds that are relevant to us, we shall not only adhere to the laws and regulations of each country, but also act earnestly in accordance with firm corporate ethics and social common sense."
2. "We uphold being trusted by our customers and gaining their satisfaction by proposing high-quality products and services mainly in the new energy industry and electronics industry, and offering cost-competitive products and services."
3. "We view the proactive promotion of activities considerate toward global climate as an important challenge in terms of management and will gradually adapt to the latest demand for environmental restrictions. Moreover, we uphold the development of materials and products that can be used in the new energy industry, contributing to resolving global climate issues."
4. "We will contribute to the society through craftsmanship utilizing core technologies and keep being a company whose growth can be anticipated by stakeholders such as our clients, shareholders, employees, business partners and local communities. Furthermore, we will follow social common sense, complying with laws and regulations, social order and global rules in our corporate activities."

<Principle 2-3: Issues related to sustainability, mainly social and environmental issues>

The semiconductor manufacturing process has a significant environmental load, and solving this is a challenge for the entire industry. The company sells products such as thermo-electric modules, which are CFC-free temperature control devices, and power semiconductor substrates and ferrofluids that effectively reduce power consumption. The company also relies on clean energy, using solar panels in power generation at our plants in Japan and China. Thus, our business activities contribute to reducing greenhouse gases, leading to environmental pollution reduction. In March 2023, the "Sustainability Committee" was established as a committee under the Company's Board of Executive Officers to check the status of sustainability initiatives, review and deliberate on them, and report to the Board of Directors and other relevant bodies when necessary in order to examine and promote sustainability on a company-wide basis. The number of university students in financial distress is increasing due to the COVID-19 crisis. Therefore, the company supports the Akira Yamamura Scholarship Foundation, which provides scholarships to engineering students to develop talented human resources who can contribute to society in the future.

<Principle 2-4: Ensuring diversity, including active participation of women>

Believing that working with employees who have different experiences and senses of values within a company is an advantage in ensuring sustainable business growth especially when companies operate globally like our company, we endeavor to ensure diversity, including active participation of women, based on our policy of entrusting each of our local subsidiaries with management of their own companies.

<Principle 2-5, Supplementary Principle 2-5-1: Whistleblowing> We have arranged the whistleblowing system, clearly stating that

whistleblowing will not be met with any unfavorable treatment. We have posted a notice concerning whistleblowing on our in-house intranet with the objective of understanding and spreading the knowledge of the whistleblowing system. Furthermore, we have set up a consultation desk inside and outside the company and respond accordingly in compliance with the whistleblowing system.

<Principle 2-6: Fulfilling the Function as the Asset Owner of Corporate Pension> Corporate pension is operated by the corporate pension fund (hereinafter referred to as the “Corporate Pension Fund”). We have confirmed that the Corporate Pension Fund fulfils the function as the asset owner of corporate pension. The Corporate Pension Fund has confirmed that all domestic institutions responsible for stock management have accepted the Stewardship Code. Furthermore, it monitors institutions responsible for management in terms of constructive dialogue with investees and the situation concerning the exercising of voting rights, and also confirms concrete cases of Stewardship activities at this point. Moreover, it checks the accuracy and transparency of information provided by the corporate pension consultant, etc. Conflicts of interest are appropriately managed by concluding a contract for entrusting the selection of individual investees and the exercise of voting rights to an institution responsible for management.

<Principle 3-1: Enrichment of information disclosure>

(i) Our company’s corporate principles, medium-term business plans, corporate governance, and ESG/SDGs

In addition to appropriately disclosing information in accordance with relevant laws and regulations, our company discloses on our website information relating to our corporate principles, medium-term business plans, corporate governance, Environment, Social, and Governance (ESG), and Sustainable Development Goals (SDGs) with the aim of ensuring transparency and fairness of our company’s decision-making and realizing an effective corporate governance system.

1) Corporate principles: https://www.ferrotec.co.jp/company/company_philosophy.php

2) Medium-term business plans: https://www.ferrotec.co.jp/ir/ir_ml_plans.php

3) Corporate governance: https://www.ferrotec.co.jp/esg/esg_governance.php

4) ESG/SDGs: <https://www.ferrotec.co.jp/esg/>

(ii) Basic views and basic policies on corporate governance

Our company’s views and policies on corporate governance are as described in “1. Basic views on corporate governance, capital structure, corporate attributes, and other basic information” of this report.

(iii) Policies and procedures followed by the Board of Directors when determining compensation for management executives and directors

1. Basic policies

Our company attaches weight to the following points as the basic policies on compensation paid to the directors of our corporate group:

(1) Directors (excluding outside directors)

•Our company acquires talented human resources who are capable of contributing to fulfillment of our company’s mission from inside and outside our company.

•The compensation system shall be one that our company can maintain.

•The compensation system shall be one that motivates directors to attain business targets and raise medium- and long-term corporate value and contributes to sustainable growth of our corporate group.

•The compensation determination process shall be transparent, fair, and rational from the perspective of accountability to all stakeholders including shareholders.

(2) Outside directors

•The compensation system for outside directors shall be appropriate for their roles and duties of supervising our company’s business from an independent and objective standpoint.

2. Compensation composition and level

Compensation for the directors who serve concurrently as executive officers (hereinafter referred to as Executive Officers and Directors) consists of basic compensation (fixed compensation) that is determined according to such matters as the title, short-term performance-linked remuneration, and medium- and long-term performance-linked remuneration (hereinafter referred to as share-based remuneration). The ratio of basic compensation and short-term performance-linked remuneration and share-based remuneration is approximately 1:1:1 for the reference amount of compensation paid to the representative director and president (on a consolidated

compensation basis), and the ratio for other Executive Officers and Directors is determined according to such factors as the significance of their duties. Our company does not have any system of retirement benefits for offices in place. Compensation for outside directors and Audit & Supervisory Board members shall be comprised only of basic compensation (fixed compensation) with their roles and responsibilities taken into account.

When determining compensation composition and levels, our company shall take into account results of comparison with the market levels by utilizing a variety of information and data, including objective data on compensation market research conducted by outside specialized organizations.

3. Incentive remuneration

Incentive remuneration shall be provided according to such factors as achievements in the indicators defined in medium-term business plans whose basic policies are designed to thoroughly pursue growth and shall consist of short-term performance-linked remuneration and medium- and long-term performance-linked remuneration that is paid through a share-based compensation system including restricted share units (RSUs) and performance share units (PSUs) in order to strongly encourage directors to execute their duties in accordance with the business principles and business strategies under a compensation system that is linked with such achievements as business results and the corporate value.

4. Compensation governance

Based on a resolution made by the Board of Directors, our company delegates to the representative director and president the responsibility to determine compensation by convening the compensation committee, consulting it, and respecting the opinions given during the consultation pursuant to the provisions set forth in relevant regulations in order to ensure fairness and transparency. The majority of our company's compensation committee are made up by independent outside directors. The compensation committee provides opinions or submits reports to the Board of Directors as necessary by taking into account the latest situation and market trends regarding the environment surrounding compensation for officers, results of compensation comparisons with other companies, and other advice. Furthermore, our company has appointed an outside compensation consulting company (Willis Towers Watson or WTW for short) as our advisor.

5. Compensation for outside directors and others

Compensation paid to our company's outside directors consists only of fixed compensation (basic compensation) in light of their role in supervising our company's business from an objective and independent standpoint. The level of the fixed compensation paid to our outside directors shall be determined in reference to the latest situation and market trends regarding the environment surrounding compensation for outside directors, results of compensation comparisons with other companies, and advice from the outside compensation consulting company while taking into account multifarious factors, including their roles in such committees as the compensation committee and experience that each outside director has gained.

(iv) Policies and procedures followed by the Board of Directors when electing and dismissing the management executives, and nominating candidates for directors and Audit & Supervisory Board members

Our company has defined criteria and a procedure for electing candidates for directors and criteria and a procedure for electing candidates for Audit & Supervisory Board members as follows:

(Criteria and a procedure for electing candidates for directors)

1. Criteria for electing candidates for directors

The Board of Directors must elect candidates for directors only after the nominating committee carefully considers the eligibility of each candidate as a director. Candidates shall be those who are believed to be capable of carrying out the roles and duties provided for in the Companies Act, our company's articles of incorporation, and the regulations of our Board of Directors. Specifically, candidates shall be elected based on comprehensive judgment of such factors as personality, capabilities, and work history with the following points used as criteria:

- 1) Candidates shall be highly motivated to expand, grow, manage, and operate our business through corporate activities
- 2) Candidates shall have convictions and abilities to take action that bring benefits to our corporate group, our shareholders, our employees, and the society.
- 3) Candidates shall have broad perspectives, foresight, decisiveness, and leadership.
- 4) Candidates shall have health conditions that do not prevent them from serving out their terms as directors
- 5) Two or more candidates shall, in principle, be elected as candidates for outside directors. From the perspective of corporate governance, candidates for outside directors shall be elected from those who satisfy the following conditions:

① Candidates shall have experience in managing other companies or organizations and have successively held positions as directors

and other equivalent positions as senior executives, or candidates shall have such qualifications for lawyers and accountants.

② Candidates shall have no special interest with the representative director, other directors, or major employees and thus have no issue with ensuring independence.

③ Candidates shall be capable of expressing objective opinions to the representative director and the Board of Directors disinterestedly as outside directors.

④ Candidates shall be capable of supervising execution of duties by the directors.

2. Procedure for electing candidates for directors

Candidates shall, in principle, be elected in accordance with the following procedure:

Candidates shall be identified after the representative director considers the quality and brief personal record of each candidate recommended by the representative director or any of the directors and holds an interview with him or her, and the nominating committee shall deliberate about each candidate. Then, the Board of Directors shall begin deliberations and determine whether to present proposals to resolve to elect them as candidates for directors at ordinary general meetings of shareholders.

(Criteria and procedure for electing candidates for Audit & Supervisory Board members)

1. Criteria for electing candidates for Audit & Supervisory Board members

Candidates shall be those who are believed to be capable of carrying out the roles and duties specified in the Companies Act, our company's articles of incorporation, the regulations of the Audit & Supervisory Board. Specifically, candidates shall be elected based on comprehensive judgment of such factors as personality, capabilities, and work history with the following points used as criteria:

1) Candidates shall have health conditions that do not prevent them from serving out their terms as audit & supervisory committee members.

2) Independence from the owner of our company and the executive members shall be ensured.

3) Candidates shall satisfy one of the following:

① Candidates shall have thorough knowledge and experience regarding such subjects as accounting and legal affairs relating to company management.

② Candidates shall have thorough knowledge and experience, and any other relevant abilities regarding the business areas specified in our company's articles of incorporation.

③ Candidates shall have thorough knowledge and experience, and any other relevant abilities that allow them to be familiar with administrative work and recognize the importance of business resources.

4) Over half of candidates for Audit & Supervisory Board members shall be elected as candidates for outside Audit & Supervisory Board members, and the candidates shall be elected with the following items, in particular, taken into account regarding their relationships with our company:

① Candidates shall have no issue with ensuring independence while taking into account their relationships with the representative director, other directors, and major employees.

② Candidates shall be those who are expected to be capable of asking the representative director and the Board of Directors unreserved questions and expressing objective audit opinions disinterestedly as outside Audit & Supervisory Board members.

③ Candidates shall be those who are expected to be capable of trying to obtain necessary information, striving to share information with other Audit & Supervisory Board members, and cooperating with other Audit & Supervisory Board members in conducting audits.

2. Procedure for electing candidates for Audit & Supervisory Board members

The Audit & Supervisory Board considers the brief personal record of each candidate recommended by the representative director or any of the Audit & Supervisory Board members, holds an interview with each candidate, deliberates about him or her, determines whether or not to present proposals to resolve to elect them as candidates for an Audit & Supervisory Board member at general meetings of shareholders, and swiftly submit written reports about the results to the representative director.

(v) Explanations for election or dismissal of each management executive, and nomination of each candidate for directors or Audit & Supervisory Board members as determined by the Board of Directors with the criteria and procedures specified in (iv) above taken into account

Reasons for election of each of the directors and the Audit & Supervisory Board members are provided on convocation notices of general meetings of shareholders together with their respective brief personal records. Reasons for election of each of the present directors are provided on our website:

https://www.ferrotec.co.jp/ir/ir_shareholder_related.php

<Principle 3-2: External accounting auditors> The Board of Directors shall receive reports from the external accounting auditor through the department in charge. The corporate auditors and the board of corporate auditors maintain close ties with the external accounting auditor by meeting with them on a regular basis and receiving reports on audit plans in advance. In addition, the internal audit office meets regularly with the external accounting auditor to share information necessary for audits.

<Principle 4-1: Roles and Responsibilities of the Board (1)> The regulations of the Board of Directors stipulate that the Board of Directors shall make decisions on matters stipulated by law or the incorporation, as well as on basic matters concerning the execution of management operations and supervise the execution of those operations.

<Supplementary Principle 4-1-1: Scope of Delegation to Management> Our company stipulates matters requiring resolutions by the Board of Directors in accordance with laws, regulations, the articles of incorporation, and the rules of the Board of Directors. Matters related to the general meeting of shareholders, financial statements, directors and executive officers, stock-related matters, planning matters, personnel and general affairs, sales-related matters, decisions on internal control systems, and matters related to affiliated companies are determined by resolution of the Board of Directors. In addition, our company has adopted an executive officer system, whereby the Board of Directors resolves the duties of executive directors, and under the direction of the president and representative director, they perform their duties in accordance with the authority stipulated in the regulations on the division of duties and administrative authority to enable prompt decision-making.

<Principle 4-2: Roles and Responsibilities of the Board (2)> Our company's regulations of the Board of Directors stipulate that meetings of the Board of Directors should be held once a month and extraordinary meetings of the Board of Directors shall be held, when necessary, to enable prompt decision-making in response to changes in the business environment.

<Principle 4-3: Roles and Responsibilities of the Board (3)> The president and CEO of our company is to report monthly balance sheets, profit-and-loss statements, and cash flow to the Board of Directors. In addition, the directors are to report to the Board of Directors important facts such as important management matters, competitive transactions, and self-dealings as stipulated in the regulations of the Board of Directors.

<Supplementary Principle 4-3-2: Appointment of the CEO> Our company has established criteria for the appointment and dismissal of a chief executive officer, which stipulate the necessary qualities required of a CEO (integrity, health, leadership, ability to adapt to change, decisiveness, global perspective, and management track record). The Board of Directors recognizes that the decision of the CEO is the most important strategic decision in ensuring the sustainable growth of our company and improving our corporate value over the medium to long term. In order to ensure fairness, appropriateness and management effectiveness in the selection of candidates, we have established a nomination committee, with a majority of independent outside directors, as an advisory committee to the Board of Directors, which selects, deliberates and decides on candidates and reports to the Board of Directors. The Board of Directors will deliberate on the recommendations of the nomination committee and decide on the next CEO.

<Supplementary Principle 4-3-3: Dismissal of the CEO> Our company has established criteria for the appointment and dismissal of the CEO, and the dismissal criteria are set out as cases where it is determined that the CEO's dismissal will impede business operations, such as "performance requirements," "health status," "grounds for disqualification as a director," and "loss of credibility due to misconduct by the CEO." Our company stipulates that such cases should be deliberated at the outside directors' meeting, which is composed of all outside directors and external accounting auditors and submitted to the Board of Directors for deliberation.

<Principle 4-4: Roles and Responsibilities of Corporate Auditors and the Board of Corporate Auditors> Corporate auditors and the board of corporate auditors monitor the state of governance and its operation and audit the execution of duties by directors. Corporate auditors conduct a wide range of reviews of overall management by attending board meetings, meeting with executive officers, reviewing important documents, and striving to share information at monthly board meetings to ensure efficient and effective audits. Full-time corporate auditors attend not only board meetings, but also meetings of the management committee and other important meetings to conduct appropriate audits and provide advice on business execution, thereby striving to improve the quality and soundness of management.

<Principle 4-5: Fiduciary Responsibility of Directors and Corporate Auditors> Directors and corporate auditors fulfill their fiduciary responsibility to shareholders, recognizing that working together with shareholders and other stakeholders and acting in the best interests of society and the common interests of shareholders will enhance our company's corporate value.

<Principle 4-6: Business Execution and Oversight of the Management> In order to ensure the effectiveness of independent and objective supervision by the Board of Directors, our company appoints independent outside directors who are not involved in the execution of business and who maintain a certain distance from the execution of business operations.

<Principle 4-7: Roles and Responsibilities of Independent Outside Directors> Our company appoints independent outside directors based on the understanding that, based on their independence, they will fulfill the functions of supervising execution, providing advice, overseeing conflicts of interest, and reflecting the opinions of minority shareholders and stakeholders.

<Principle 4-8: Effective Use of Independent Outside Directors> Our Board of Directors consists of nine directors, three of whom are outside directors. In order to make the management oversight function of the Board of Directors even clearer and more transparent, we have established our criteria for the appointment of independent directors in accordance with the securities listing regulations of the Tokyo Stock Exchange and have appointed three independent outside directors who meet those requirements: Tatsuo Okada, Akihiko Sakamoto, and Takumi Iso.

<Principle 4-9: Independence Criteria and Qualifications for Independent Outside Directors> Our company has established the criteria for the appointment of independent directors in accordance with the securities listing regulations of the Tokyo Stock Exchange. In addition, from the viewpoint of incorporating the perspectives of diverse stakeholders into the supervision of business activities, we pay attention to diversity in terms of their fields of expertise and gender, by consulting with the nomination committee as appropriate.

<Supplementary Principle 4-10-1: Appropriate involvement and advice from independent outside directors through the establishment of nomination and compensation committees> Currently, independent outside directors do not make up the majority of the Board of Directors, but our company has established a compensation committee and a nomination committee, both of which are composed of a majority of independent outside directors, as advisory committees to the Board of Directors. The committee includes outside directors with knowledge of ESG management, experience in research and development at business corporations, and ample management experience as managers, and they provide appropriate involvement and advice from a wide range of perspectives. The Board of Directors respects the content of this consultation to the maximum extent possible, ensuring transparency and fairness in the remuneration and nomination of directors.

<Supplementary Principle 4-11-1: View on the balance between the knowledge, experience, and skills of the board of directors as a whole, and on diversity and appropriate board size>

Our company's Board of Directors believes that a board of directors needs to be composed of directors with diverse perspectives and experience, and diverse and advanced skills for supervision of business execution and important decision-making. It also thinks that our auditors need to possess diversity and superior skills like the directors because they are obliged to attend board meetings and give their opinions as required. With regard to outside executives, we believe that we need outside directors who have voting rights in board meetings, in addition to outside statutory auditors, and it is essential that both the auditors and directors are highly independent so that a double check function, which consists of supervision by the Board of Directors and audits by the auditors, can work properly.

Furthermore, we intend to appoint independent outside directors who have management experience at other companies and ensure that their skills are comprehensive by selecting them based on a balance of knowledge, experience, and abilities required by the Board of Directors as a whole.

We have posted a skill matrix, a list of such elements as the knowledge, experience, and skills of each of our directors and auditors, on our website: (<https://www.ferrotec.co.jp/esg/sdgs.php>)

<Supplementary Principle 4-11-2: Concurrent Positions of Directors> Our company discloses the statuses of important concurrent positions of director candidates and directors annually in the reference documents for the "notice of convocation of the general meeting of shareholders," business reports, and the annual securities report.

<Supplementary Principle 4-11-3: Evaluation of the Effectiveness of the Board of Directors > To improve the function of the Board of Directors and ultimately increasing corporate value, while receiving advice from an external organization on evaluating the effectiveness of the Board of Directors, we conducted a survey (hereinafter, the “survey for the fiscal year ended March 2024”) by asking all directors and corporate auditors who are members of the Board of Directors to complete a questionnaire regarding the composition, operation and discussion of the Board of Directors, and dialogue with shareholders in January 2024. Anonymity was ensured as their answers were directly sent to the external organization. Based on the report of results summarized by the external organization, the results were analyzed, discussed, and evaluated at the regular Board of Directors meeting in April 2024. The main items in the survey for the fiscal year ended March 2024 are as follows: the structure of the Board of Directors, composition, operation, and discussions of the Board of Directors, monitoring function of the Board of Directors, performance of outside directors, support system and training for directors and auditors, dialogue with shareholders, personal initiatives, operation and overview of the nomination committee and compensation committee. Responses were given in a five-point scale and written in descriptive format. The summary of the evaluation results for the fiscal year ended March 2024 shows that the Board of Directors’ operation was generally positive, with regard to the comprehensiveness and clarity of materials, the board’s monitoring function being the supervision and monitoring of the establishment and operation of internal control systems, including those at subsidiaries, and the performance of outside directors being appropriate in making comments and suggestions from a broad perspective. We believe that the effectiveness of the Board of Directors as a whole has been ensured. On the other hand, the results mention ESG, SDGs, sustainability management, and medium to long-term human resource strategies as topics that should be discussed at the Board of Directors, and shared issues for setting up and invigorating discussions at the Board of Directors’ meetings. Based on this evaluation of effectiveness, the Board of Directors will continue its efforts to enhance the functions of the Board of Directors in order to improve corporate value over the medium to long term.

<Principle 4-12: Active Board Deliberations> In principle, the Board of Directors meets once a month to deliberate and decide on matters stipulated by the Companies Act and the articles of incorporation, as well as other important matters related to the management of our company.

In addition, a management strategy meeting consisting of directors and executive officers is held in conjunction with the schedule of the Board of Directors meetings, where important management matters are reported and actively discussed in order to facilitate communication and information sharing. The General & Legal Affairs Office distributes materials on matters to be discussed at the Board of Directors’ meetings to directors and corporate auditors in advance, and a briefing session is held the day before or on the day of the meeting to explain the agenda.

<Principle 4-13: Information Gathering and Support Structure> Our company has established a system in which directors, executive officers, and each corporate auditor can attend board meetings, inspect important documents, and exchange opinions with representative directors of our company and major subsidiaries as appropriate, exchange opinions with representative directors of subsidiaries when conducting audits, and receive information on the status of activities from the people in charge of each department and subsidiary on a regular or as-needed basis. In addition, if any facts occur that may cause significant damage to our company or its subsidiaries or any important facts that violate laws, regulations, or the articles of incorporation, or if such facts are reported, directors, executive officers, and employees, as well as directors, auditors, and employees of subsidiaries, are to promptly report them to the risk management committee, which will then report them appropriately to the Board of Directors.

<Principle 4-14: Training of Directors and Corporate Auditors> Our directors and auditors participate in external seminars and report or communicate the results at the Board of Directors’ meetings as appropriate.

<Principle 5-1: Policy for Constructive Dialogue with Shareholders> To achieve sustainable growth and improve corporate value, we will promote constructive dialogue with shareholders, explain our management policies and business conditions in an easy-to-understand manner, and strive to gain the understanding of shareholders.

- Policy for constructive dialogue with shareholders -

1. Overseeing dialogue with shareholders: The director of administration, who is in charge of IR, and the director in charge of businesses in Europe, the U.S. and Asia have been appointed as the management team responsible for overseeing dialogue with shareholders.
2. A system of collaboration among various internal departments to support dialogue with shareholders: The IR/Public Relations Department and the Finance and Accounting Department work together to support dialogue with shareholders.
3. Efforts to improve the means of dialogue other than individual interviews: We utilize various means of communication, including

financial results briefings, small meetings, individual investor briefings, business briefings held after the general meeting of shareholders, online meetings, and various printed materials. At financial results briefings and business briefings, the representative director personally gives explanations.

4. Management of insider information during dialogue: We strictly manage information in accordance with our internal information management regulations.

[Actions to achieve management that is conscious of the cost of capital and stock price] [English description available]

We consider return on equity (ROE) and return on invested capital (ROIC) to be important management indicators and have set an ROE of 15% and an ROIC of 8% as one of our management targets (KPIs) for the period of our medium-term management plan (FY 3/2025 to FY 3/2027). The Board of Directors periodically reviews the cost of capital and weighted average cost of capital (WACC) and has calculated the cost of equity capital to be in the mid-8% range and the WACC to be in the upper 7% range for the fiscal year ended March 2024. In contrast, ROE and ROIC for the same consolidated fiscal year were 7.8% and 4.5%, respectively, lower than the cost of capital and WACC, mainly due to a decline in the net income margin attributable to shareholders of the parent company and an increase in tangible fixed assets caused by increased expenses associated with recent large capital investments. Therefore, we recognize that our most important management issue at hand is to stably achieve ROE and ROIC that exceed the cost of capital and WACC, respectively. In addition, our price-to-book ratio (PBR) remains below 1, at 0.68 for the fiscal year ended March 2024, and we recognize the importance of improving our ROE and price-earnings ratio (PER). For our current assessment of these management issues and various measures, please refer to “Efforts to achieve management that is conscious of capital costs and stock price,” which was disclosed on July 31, 2024.

(Japanese) <https://www.ferrotec.co.jp/php/download.php?f=jp/66b077985a236.pdf>

(English) <https://www.ferrotec.co.jp/php/download.php?f=en/66b0929d8d3aa.pdf>

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